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THE EVOLUTION OF PEOPLE'S BANKS

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THE EVOLUTION OF PEOPLE'S BANKS

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To
A. J. T.

PREFACE

THE success of various European systems of cooperative credit has aroused wide interest not only in this country, but also in every civilized nation. Almost every important government in the world has tried at some time to secure for its citizens the benefits of these unique institutions. Finally in 1913 the President of the United States appointed a commission to go to Europe with a larger group assembled by the Southern Commercial Congress, to study, among other aspects of rural life, those cooperative institutions which served farmers. The testimony presented to this commission offered an unusual abundance of source material. But the speed with which that commission was compelled to travel over Europe seemed to leave still some room for investigations of a humbler and more detailed kind, while the fact that this commission devoted its attention primarily to rural credits made it seem desirable to gather some additional material with respect to urban institutions. Thus it happened that the writer of the following pages also spent some months abroad in 1913 trying to gather material for a description of these institutions.

Before the results of this investigation were ready for presentation to the public, there was published in this country a remarkable book on Rural Credits by Myron T. Herrick, and R. Ingalls. Substantially half of that work was devoted to a description of Cooperative Credit. This description included urban as well as rural institutions. The completeness and excellence of the description which Ambassador Herrick thus presented, made further work along

that line quite useless. But the very excellence of his work brought out one defect which is necessarily inherent in the purely descriptive method;—it is not possible in that way to bring out so clearly the conditions under which cooperative institutions have succeeded or failed. The effect which a changing environment has on such institutions and the changes within the institutions themselves which have been made to secure adaptation to the changed conditions, can be brought out clearly only in an historical account. It is for this reason, rather than because of any desire to compete in its own field with a classic investigation, that this study has been attempted.

In presenting this monograph to the public it is necessary first to thank three members of the Department of Economics of Columbia University,—Professors Seligman, Seager and Simkhovitch, for their kindly interest. To his colleague and superior officer, Professor Davis R. Dewey of the Massachusetts Institute of Technology, the writer gratefully acknowledges a similar debt. To two officials of the audit-leagues of the Imperial Federation, Dr. Bunning and Dr. Lindekugel, the writer is indebted for much information. To several professors at the University of Halle a. S. the writer of these pages is also much indebted. To his host, Professor Gutzeit, the writer owes many opportunities to come in contact with people who could give information and advice. To Professor Conrad the writer is indebted for much kindly interest. To the course given in the University of Halle by Dr. Hans Crüger, the Counsel of the Universal Federation, the writer is indebted for much of his present view-point with respect to people's banks; and to Dr. Crüger personally the writer is indebted for his most generous offer of the translation privileges of Dr. Crüger's own excellent treatise. It has always been a matter of regret to the writer that he was not able to avail himself of

that offer. But most of all the writer is indebted to Dr. Rabe, the manager of the Imperial Federation's audit-league for the province of Saxony. To the latter's course on rural cooperation, to the opportunities which he afforded to secure first hand contact with various institutions, and to his kindly interest is due no inconsiderable portion of the writer's views with respect to rural cooperation.

DONALD S. TUCKER.

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CHAPTER I

The Foundation Stones

There are at present three distinct types of cooperative banks or cooperative credit institutions. These are (1) the cooperative investors' association, of which the most conspicuous example is the American savings and building-loan association; (2) the people's bank whose success abroad has aroused an ever increasing amount of interest in this country; and (3) the cooperative borrower's association, which is best exemplified by the Raiffeisen or village bank. This monograph is confined to a study of the development of the work and of the structure of the second of these three institutions, the group of organizations which on the continent of Europe are often called Schulze-Delitzsch syndicates or Luzzatti banks, but which in English-speaking countries are commonly called simply people's banks.

The cooperative savings and building-loan associations originated in England at about the opening of the nineteenth century. By the middle of that century they had risen to great popularity within England and had spread to the continent of Europe, as well as to the United States. In the latter country there was a progressive improvement in their structure and in their efficiency as well as a great growth in numbers and wealth, but there was no further development;—no new form arose from the cooperative investors' association. In Europe things followed a different course.

The force back of this European development was the Industrial Revolution and the whole series of reform movements, socialistic and otherwise, which followed on the heels

of that Revolution. The introduction of machinery occurred first within England. It was, therefore, within England that the first steps toward reform were taken. These first efforts were devoted, not at all to the development of a new and more efficient form of business organization, but solely toward moral and economic reform.

The misery and degradation of the English laborer during the first half of the last century is so familiar that a description of the horrors of his life need not be repeated here. It was an effort to alleviate these horrors that brought forward the man who was destined to become both the first modern socialist and the first important contributor toward the development of the cooperative syndicate.

Robert Owen was born in a village of North Wales in 1771.[1] His father was a saddler who could afford but little education for his son. Robert's business career began at the age of ten. For a while this career was marked by many changes of occupation. At one time Owen was the partner of Robert Fulton, the inventor of the steamboat.[2] But throughout his business life and especially after he passed the age of nineteen, he was brilliantly successful. Among other operations he and his partners purchased a mill in New Lanark, where he himself settled in 1800 as resident manager.[3] Here he began to interest himself in projects for social reform. In this too he was strikingly successful. Commercially his New Lanark mills were a success, but his partners felt that they would be an even greater success if it were not for the expense of the social betterment projects for which the firm was paying. The partnership was therefore dissolved and Owen secured new partners, among them William Allen and Jeremy Bentham.

[1] Jones, Lloyd, *Life, Times and Labors of Robert Owen.*

[2] Owen, Robert, *Life of Robert Owen*, vol. ii, p. 69.

[3] Kirkup, *History of Socialism*, p. 60 *et seq.*

These new partners agreed to content themselves with an annual dividend of five per cent.[1]

This new method of paying the proprietors is noteworthy. Owen's plan was "to form a partnership of thirteen shares . . . . and that over five per cent for our capital and risk, the surplus gains shall be freely expended for the education of the children and the improvement of the workpeople at New Lanark and for the general improvement of the conditions of the persons employed in manufactures." [1]

Owen devised here a scheme which has been the basis of many modern cooperative programs; namely, a definite return for the capital involved with the stipulation that all surplus above this fixed amount, that is, all the profit or residue whose existence depends on the fortunes of the business, should go for other purposes. This residual share in New Lanark remained the property of the firm. The only difference was that it was administered as a trust fund.

The next step was actually to transfer the ownership of this residuum. But that step was not made until considerably later. In the meantime Owen's ideas, both through his own efforts and through the activities of the Christian Socialists, were spread far and wide.

In addition, Owen was the first great prophet of cooperation. But cooperation, as he meant it, was not a definite scheme to eliminate the capitalistic employer. It was rather the general idea of association, of communal work, a kind of utopian socialism. It was exemplified by the communities at Orbiston and New Harmony. These experiments failed, but the discussion they stirred up grew. Thus by 1830 the movement [2] contained over five hundred associa-

[1] Owen, *Autobiography*, vol. ii, p. 95.

[2] Cooperation, even the idea of "philanthropy plus 5%" had received some previous experimentation at the hands of Count Rumford. *Cf.* Holyoake, *Self Help 100 Years Ago.*

tions and numerous newspapers were devoted to the cause.[1]

In 1830 a cooperative congress was held in Manchester. Six subsequent ones were held, but within a brief period they were replaced by the first socialist congress, the Association of All Classes of All Nations.[2] Cooperative stores had existed ere this as philanthropic institutions.[3] Now the idea was revived. In 1837 a store was opened in John St., London.[4]

The first really successful cooperative store was one organized by a group of workers in Rochdale in 1844. Their plan, as worked out by Charles Howarth,[5] was that members on joining should each subscribe for one £5 share. This was to be paid for in small instalments. On this share-capital interest at the rate of 5% was to be paid, any profits above this amount were to be distributed in proportion, not to stock, but to purchases. This scheme differed from Owen's plan in that the title to the profits actually passed to the beneficiaries. In practice the society encouraged its members not to withdraw their dividends, but to reinvest in the capital stock of the society. Prices were held up to the full rates current in the locality, so that there might be some sort of a margin for unexpected expenses or losses, as well as a surplus to pay these dividends.

Credit for this new idea, that of assigning profits, and incidentally losses, to some one other than the capitalist, has been claimed for various men. A little known society near Huddersfield had run a store on this plan since 1827 but no one seems to have heard of its work until 1870.[6]

[1] Seligman, *Owen and the Christian Socialists*, p. 214.

[2] Holyoake, *History of Cooperation*, vol. i, p. 191.

[3] Holyoake, *Self Help One Hundred Years Ago*.

[4] Holyoake, *History of Cooperation*, p. 297.

[5] *Ibid.*, vol. ii, p. 35.

[6] *Ibid.*, vol. ii, p. 36.

Credit has also been claimed for a society of bakers in Glasgow. But certainly the first experiment of which the world heard and whose results were available for use was that of William Howarth and his associates, the Rochdale Pioneers.

This Rochdale business grew and became diversified. In 1912 the wholesale department which the stores on the Rochdale plan had organized in order to supply themselves and other similar stores, had 392,934 shares of stock of £5 apiece outstanding and did a business of approximately $150,000,000.00 [1] within the year.

After the appearance of the cooperative store, the history of the development of cooperative banking shifts from England back to France, which had already served as the birthplace of the friendly society, the first of all the modern organizations of cooperative finance. The reign of Louis Phillipe, king of the French from 1830 to 1848, was marked by a continuously increasing discontent on the part of the poorer classes and a growing discussion of comprehensive schemes of social reform. Among those who contributed most to this discussion were Buchez, Proudhon and Louis Blanc.

Buchez (1796-1865) started his career with a bitter hatred of Christianity, but later he became a convert of the Catholic Church and worked with fervent zeal to improve the condition of the working classes. He published his views in various forms. One of these publications bears the ambitious title, *Essay at a Complete Treatise on Philosophy from the Point of View of Catholicism and Progress.* But Buchez also did some practical organizing work. In 1832 he founded an association for cabinetmakers and in 1834 a similar one for goldsmiths. In these

[1] Redfern, *History of the C. W. S.*, p. 418.

associations he developed one institution which was destined to play a great role in cooperative history; namely, the idea of an undistributable surplus, an inalienable fund to which a certain portion of the earnings must be credited each year.[1]

Pierre Joseph Proudhon (1809-1865) was one of the founders of anarchism. In a history of nineteenth century France, his figure would be a more conspicuous one than that of Buchez. But within the narrower field of cooperation, Proudhon is important for only one reason. In 1848 he launched a grandiloquent scheme for a "People's Bank" with a structure that was by no means cooperative. His bank collapsed within a few months and by its collapse did much to prevent the development within France of any genuine cooperative banking movement.[2]

Louis Blanc (1811-1882) holds an even larger place in the history of the nineteenth century. He was perhaps the most conspicuous figure in the history of French Socialism. He did much to popularize the idea of cooperative production. As a result of his agitation, the government of France appropriated nearly $600,000.00 in 1848 to supply capital for "national workshops." But the administration of this fund was put in the hands of Louis Blanc's political opponents, men who seemed eager to see to it that his plans did not succeed. In spite of the manner in which this fund was administered, a few of the state-aided cooperative societies did moderately well.[2] However, the failure of the large majority of the new cooperative factories did more than anything else to make improbable in France any prompt development of real cooperation.

[1] M. Fassbender, *F. W. Raiffeisen in seinem Leben, Denken und Wirken* (Berlin, 1902, p. 85).

[2] Herrick and Ingalls, *Rural Credits*, p. 321 and Kirkup, *History of Socialism*, p. 51 *et seq.*

[3] Kirkup, *History of Socialism*, p. 43 *et seq.*

In Belgium this same year of general unrest (1848) brought about the formation of the first true credit union. M. Francois Haeck induced a number of men to join together, each subscribing for one share of the bank they were thus founding. On this share they paid in a small proportion of its par value. They thus became entitled to have the Union endorse or "accept" their paper up to an amount equal to the par value of their share. This paper was then sold to investors who looked to the Union for payment. The society was very successful, so successful in fact that rich men were glad to join. Then, as an organization of rich men, it ceased to command the attention of social reformers and of those who might have been benefited by imitation. Organizations of this type naturally can succeed only when the members are chosen with very great care. Perhaps this necessity for such an exclusive membership is one reason why the Belgian scheme did not spread more rapidly. At any rate, the Belgians soon lost to the Germans the honor of being the practical founders of modern cooperative banking.[1]

Perhaps it was inevitable that Germany should become the cradle of the cooperative banking movement. Certainly there were many favoring circumstances. To begin with, Germany had a large population. Cooperation could spread within it to a very considerable extent without encountering the obstacles of diversified speech and ideals. Next it still retained to a very considerable degree its feudal character. Even in the cities class lines were more distinct than in most nations of equal economic development. Men thought of themselves far more easily as members of a certain social class. There was little change of residence. Men belonged in a definite place.

[1] Wolff, H. W. *People's Banks*, p. 286 *et seq.*

In the rural districts the German farmers are not scattered out over the land as they are in America and in some parts of western Europe, but are concentrated in villages of a hundred or more inhabitants. These peasants were quite accustomed to look upon the village as the normal centre of their lives. Not only did Germans know to what social class they belonged, but outside of the great cities each German had also a definite place within a local group.

In addition to all this favorable background, there were in existence in north Germany certain definite institutions whose operation had to a large extent familiarized the population with some forms of cooperative organization. The most important of these of course was the joint-stock corporation. But there were also charitable loan societies,[1] and some institutions similar to the English friendly societies and savings banks with the difference that the insurance feature was perhaps more prominent in the German societies.[2] The municipal savings banks also deserve special mention here because, as they spread to the smaller towns, it was easier to observe their rôle as municipal borrowing agencies. The fact that they were media for investment open to all who wished to save must have been supplemented by a realization, at least in the smaller towns, that the bank's acceptance of deposits made all taxpayers jointly liable. There were also copies of the English savings and building-loan associations.

Finally, and most important of all, the gilds of Germany had survived more completely than those of any other country. Not until the reforms of Stein and Hardenberg (1808-1811) was their monopoly position disturbed; and even after these reforms the gilds lived on as voluntary

[1] M. Fassbender, *F. W. Raiffeisen*, p. 72.

[2] *Ibid.*, p. 70.

associations. So strong were they that an effort to regulate them in 1845 precipitated a congress of hand-workers in 1848 and was one of the many causes of the revolution of that year.[1]

[1] F. A. Ogg, *Economic Development of Modern Europe* (New York, 1917) pp. 218-219.

CHAPTER II

Victor Aimé Huber

Though Owen must be regarded as the first apostle of the modern cooperative movement, the first apostle of cooperation in borrowing and finance was Victor Aimé Huber. Huber was born in Tübingen, March 10, 1800. When six years old he was sent to von Fellenberg's school in Switzerland, where he remained until he was sixteen. During this period Robert Owen visited the school to discuss cooperation. At the age of sixteen Huber entered the University of Göttingen as a student of medicine. He was not, however, particularly interested in that subject and spent a considerable amount of time on various other subjects, especially modern languages and literature. He was granted his degree in 1820 and then went to Paris to continue his work as a medical student. He was still but little interested in this subject and spent the next few years (until 1823) travelling in Spain, Portugal, Scotland and England.[1] However educational these travels may have been, they did not increase his knowledge of medicine. Thus he did very poorly when he tried to take the state examination in Munich in 1824. This ended his connection with medicine. The next few years he spent again in travel in England, France, Spain and Italy. He did some work for a publishing house and then for five years taught in the Bremen school of commerce. In 1832 he received a

[1] Meitzel, article on Huber in *Handwörterbuch der Staatswissenschaften* (Jena, 1910), vol. v, p. 487.

call from the University of Rostock as professor of philology and the history of literature.[1] In 1836 he went to the University of Marburg and in 1843 to Berlin in response to a call which was wrung from the University senate by the Prussian King, Frederick William IV. But his stay at this university was far from happy, so he retired in 1851. In the following year he resigned from government service as well.[2] Nearly twenty years later he died in Wernigerode in the Harz Mountains, July 19th, 1869.

At the time of his death he was known largely because he had published two periodicals: the *Mecklenburgische Blätter,* a fortnightly magazine issued during his residence in Rostock and the *Janus* which appeared from 1845 to 1848, while he was living in Berlin.

His religious life was a curious mixture, corresponding roughly to his changes of environment. His youth was singularly cosmopolitan and during this period he joined no church, and was on the whole quite liberal in his religious views. Though he had inclined toward Catholicism in his youth, he was certainly not much interested in religion. Then he settled down in the prosperous commercial city of Bremen as a teacher. Furthermore, he became engaged while there. He thereupon executed a right-about-face, and in his twenty-ninth year joined the Reformed Church to which his fiancée already belonged. He even became a zealous attendant. Finally it must be admitted that in his later years he again evinced considerable friendliness toward Catholicism. But during the active portion of his life and during the period of his prominence he was an ardent supporter of the Lutheran Church.

[1] Dr. Martin Fassbender, *F. W. Raiffeisen in seinem Leben, Denken und Wirken* (Paul Parey, Berlin, 1902), *passim.*

[2] Meitzel, *op. cit.*

In his political life too he showed a similar right-about-face. Though at first a liberal, his change from the school of commerce into a university chair of literature brought with it a change of view-point, and in his forty-first year he published a pamphlet whose title in part was *On . . . . the Necessity of a Conservative Party in Germany.* This first political effort preceded by only two years the royal effort to secure for him a position in the University of Berlin. From this time until his death much of his life was devoted to political activity. His ultimate goal throughout this political work was the creation of a "Christian communal life based upon economic reforms with the help of associated activity carried on in a spirit of Christian love." The immediate means by which he thought the goal could be obtained was cooperation.

Though his motives were religious, his interests were primarily in the present life. He had been a student of economic history, and as such appreciated the changes in the institution of property. As early as 1845, therefore, we find him discussing the possibility of organizing the masses on the basis of a common property to be created. In the twenty years following he worked out his ideas more clearly. Thus in 1864 we have from him the following much clearer confession of faith:—

> We are not so simple-minded, so ignorant or so prejudiced as to say that cooperation alone can attain to the solution of the social problem. But we certainly do see in it a prime factor in that solution. . . . We are of the opinion, that under all given conditions, where the cooperative principle is applicable, it can produce the best results possible under the circumstances. We have not been dragged along in the trail of any theory about the significance of cooperation; but have been influenced in part by seeing the condition of the working classes in many national, political and social conditions and in part by practical experi-

ence in the operation of this new strength, at least in this particular respect. We came upon this right track first in one of our many visits to England.[1]

Huber's first interest in cooperation seems to have been aroused as a reaction from his horror at the truck system, that is, the system of paying workers not in cash but in orders on the company store, or in commodities at prices set by the company. Naturally, then, his first interest was in cooperative buying, that is, in cooperative stores.

Among these cooperative stores, he found three systems of disposing of the profits which arose from the conduct of the business. These were (1) dividing them among the owners of stock in the business as in an ordinary commercial enterprise; (2) devoting the profits to some common purpose; and (3) dividing the profits among members, in accordance with their purchases (the Rochdale plan).

The foundation of the Rochdale Pioneers (1844) coincides with the beginning of Huber's propaganda for cooperation. With the work of these Pioneers we are already sufficiently familiar. Suffice it to say that not only was Huber familiar with their work, but his chief significance lies in the fact that he was the exponent in Germany of three related English movements: (1) the Rochdale cooperative, (2) Christian Socialism and (3) the cooperative savings and loan associations, or the freehold land and building societies. In addition to this Huber was the representative in Germany of the French movement for cooperative production. He was the evangelist in Germany of the gospel of cooperation in all its branches.

Huber's interest in this French movement had been aroused especially by the work of Buchez described above.

[1] J. C. Glaser's *Jahrbücher der Gesellschafts und Staatswissenschaften*, vol. i, no. 1, reprinted by Fassbender.

Toward Buchez and toward the whole French movement he looked ever with hope. Although they were able to accomplish so little, Huber felt that these French idealists were the harbingers of a great movement. Huber's own importance in the history of the cooperative movement lies in the fact that he possessed such a vision. He was the interpreter to Germany of the progress in cooperation which had taken place elsewhere. His publications, philological, historical, economic, religious and political are almost too numerous to be even listed here,[1] but the following are worthy of mention:—

Concerning Domestic Colonies (Berlin, 1846).

Self Help Among the Working Classes Through Economic Unions and Colonization at Home (1848).

Associations With Especial Reference to England (1851).

Cooperative Organizations Among the Wage-Earners in England (1852).

This third publication seems to have been of special interest as it was cited by Schulze-Delitzsch, the most distinguished of the German cooperative organizers, in one of his own earlier books.[2] Other publications include *Travels in Belgium, France and England* (1855) and *Cooperative Organizations among the Workers in England, France and Germany.* (1860)

One series is perhaps particularly worthy of note. It is a group of eight essays bearing the general title, *Lectures on the Solution of the Social Problem.* This group in-

[1] A list of these may be found in *Handwörterbuch der Staatswissenschaften*, vol. v, pp. 487 and 488.

[2] A. Bernstein, *Schulze-Delitzsch, sein Leben und Wirken* (Bading, Berlin).

cluded essays on "What a Loan Union May Accomplish," "The Cooperative Store in Zurich", "Credit Unions and Loan Unions" and "German Cooperative Associations in the Autumn of 1861."

In addition to spreading the news as to what had been done elsewhere, Huber did a lot of excellent thinking of his own on this subject. Never a great organizer, nor active in the management of unions, he was, perhaps because of this very isolation, an exceptionally thoughtful critic of the movement, and quite keen in his analysis of what cooperation could and could not do.

In the first place Huber's interest in the whole subject was primarily ethical. He believed that the evil in this world was due primarily to defects of character. Therefore the church was right in striving to reach the spiritual springs of action directly by inspiration. But character is affected not only by such inspiration but also by the environment under which it is formed. Modesty for example is impossible where congestion is great. Character, said Huber, could be injured by having either too much or too little property. It injured a man greatly to behold misery and to do nothing about it, if he had the means to help. The influence of these material factors could be turned in the right direction only if one were continuously surrounded by the right atmosphere. As man's business life absorbed so large a portion of his time, it was therefore particularly important in that life to be surrounded by the right moral atmosphere. Without such an atmosphere the words of the church would be in vain. But what moral inspiration can there be in a constant struggle to benefit one's self and to get business away from the other man? Is competitive business morally sound?

In dealing with poverty Huber thought that the spirit of Christian charity was necessary. But charity has its limits.

For one thing, it can benefit the recipient only by the amount of which it deprives the giver. Besides, it does not necessarily help the unfortunate back to self-support and self-respect. This work is the proper function of the cooperative association.

Such an organization would involve no effort to overturn the existing order. In particular such organizations must keep away from all utopian, impractical or millennium-producing policies. Their work is the improvement of men's economic condition and their characters.

This improvement of character among the cooperators would occur for two reasons. The first reason is the occurrence of a natural reaction when the degrading pressure of poverty is removed. Thus in so far as such associations helped to remove this pressure, they would improve the world morally. But there was also a second factor. In so far as men in their every-day business lives worked for the advantage of a group instead of for themselves and their families alone, their own horizons would be enlarged and their characters improved.

When in operation these associations would, he thought, work better if the individual local union were to become a member of a greater organization, or confederation. But a large federation involves such difficulties of leadership, that it is best to keep as much work as possible in the small local association.

Further, Huber felt strongly that cooperative associations must steer clear of all political affiliations. This perhaps was to be the more expected because his own political ideals were really those of the English Christian Socialists, and were but very imperfectly embodied in the Prussian political party for whose success he struggled so valiantly. This view was made the more certain by the fact that his ideals, both religious and political, were the very opposite of those

held by the petty bourgeoisie who came to dominate the cooperative movement during the latter part of his life.

The advantages of cooperation are, he said, conferred in very different degrees by different types of associations. Savings associations had been established in Berlin some time before by Tiedtke. These were good, he thought, but they were by their nature very limited in their influence. We are to "recognize in the savings associations the first, even if still the very incomplete flower of the cooperative movement."

Next with regard to the social classes which the cooperative associations should try to help, Huber felt that although they were primarily devised to benefit the day laborer, they should, wherever possible, extend their benefits to the small proprietor. And even the wealthy landlord, he thought, might on occasion be glad to have united with him other smaller men in some enterprise for which his own strength alone was not sufficient. To the wealthy also then should all the benefits of the associations be open. No class lines might be drawn.

But with all these different classes in an organization, the problem of management would become extraordinarily difficult. This difficulty Huber recognized. And he distinguished three possible different types of management which might develop:—the monarchical, the aristocratic and the democratic. Of the three he regarded the democratic as the most desirable. But the associations which had started as pure democracies had almost without exception either been shipwrecked, or had been rescued from ruin under circumstances which made the rescuers the real government of the association from that time on. The possibility of really democratic associations could not be denied, he said, for examples certainly did exist. But given the standards of intelligence and morality which existed at his time, other

forms should be considered first. In addition to this it was generally true, he pointed out, that people of the lowest economic classes lacked the physical and nervous energy necessary to keep such an association going. Besides this, if the cooperative union is to bridge the gulf between the upper and the lower classes, it should contain both. This could be accomplished by adopting either the monarchical or the aristocratic forms of government. These, however, when they occurred, would usually appear in some concealed form. Whatever the actuality, the form would normally be democratic.

The help of outsiders also, and even of the state, would sometimes be necessary. But it should be accepted as rarely, and in as small quantity, as possible. The ideal of the movement should be pure self-help.

His practical experience in the work of running cooperative societies was very limited. In his whole life he founded but two such unions. And his biographer Elvers admits "that it seemed very trivial to him how the individual associations were legally constituted, how the suffrage was distributed among members, how the powers of the management and of the general assembly were marked off, or how all such things" of a business or legal nature were provided for. Huber is important for us because he was the man who explained the cooperative movement to Germany and pointed out to the world its ethical aspects.

CHAPTER III

Schulze-Delitzsch: Period of Preparation and Experiment

From the ethical theorist, Huber, we turn now to the opposite extreme, the man who exemplified the practical, energetic, aggressive, organizing capacities which we call business ability. Out of the numerous contributions made by this new man, none perhaps deserves higher praise than the achievement of just that task for which Huber was unfitted, the task of making things definite and giving to the cooperative movement the practical legal form it needed. This new leader was Hermann Schulze-Delitzsch.

The name Schulze-Delitzsch is a compound consisting of Schulze, the family name by which he was known during the early half of his life, and Delitzsch, the name of the town in which he lived. This combination was really forced upon him by the frequency of the name Schulze in Germany, so that when he entered public life and it became necessary to distinguish him from others of the same name, it became convenient to adopt as part of his own surname the name of the town which was his home. Thus though the name Schulze-Delitzsch was not born until the exciting year of 1848, the bearer of that name, Hermann Schulze, was born nearly forty years earlier on August 29, 1808.[1]

The Schulze family had long been well-to-do citizens of the little town, and members of the family had frequently

[1] Dr. A. Bernstein, *Schulze-Delitzsch, sein Leben und Wirken* (Max Bading, Berlin), *passim*.

served as mayor or judge for the municipality—the latter position under the simple conditions of the small town, carrying with it an almost patriarchial influence in both public and private life.

The father of Schulze-Delitzsch had in his turn held this position as *Patrimonial-Richter,* when he married Wilhelmine Schmorl in 1807. The hero of this story, Hermann, was their first born.

Perhaps the character of this new leader was affected by the magnitude of the events which happened around him during his early years. His childhood covered the period of the Napoleonic wars; and the "Battle of the Nations" was fought at Leipsic, only a few miles from his home. The general redistribution of territory which took place after that battle affected his family even more directly, for a considerable part of the Kingdom of Saxony was handed over to the Prussian monarchy. To the part thus handed over the village of Delitzsch belonged. Thus our hero's father ceased to be a Saxon, and became a Prussian, official. The elder Schulze adapted himself to the change at once and organized an association of lawyers to study the differences between the law which they had formerly administered and that which they must enforce from that time on.

Hermann's early education was much influenced by his grandfather who seems to have been an exceptionally vigorous and public-spirited old war-horse. Probably the old man recognized in his grandson a character like his own, and this similarity of character may have strengthened the natural interest. Hermann's actual instruction, however, was under the supervision of a liberal clergyman, Archdeacon Morgenstern. Under their stimulus the boy developed in a most promising fashion. His whole childhood seems to have been spent under exceptionally favorable auspices. The sole handicap was that the family income

had to cover the wants of nine other children beside himself.

At the age of thirteen Hermann was sent to a preparatory school in Leipsic. Dr. Forbiger, the head of the school, seems again to have been a very stimulating sort of an instructor who encouraged a good deal of independent activity on the part of his students. He was the type of instructor who tries to develop individuality, initiative and leadership.

During adolescence Schulze seems to have been of an exceptionally happy disposition, cheerful and abounding in energy and spirit. His mother was fond of music and their home was a centre for the music lovers of the neighborhood. In this interest Hermann joined, his baritone voice later making him a welcome addition to the group. Furthermore, he began at this period to show the mild interest in religion which characterized him throughout his later life, though he certainly was never a fanatic. His parents were both pronounced liberals, and Schulze represented always a pretty advanced type of religious thought.

After completing his preparatory work he spent two years in the University of Leipsic. He had already decided to become a lawyer, and in order to become better grounded in Prussian law he went to the neighboring university at Halle. Here he seems to have done his work sufficiently well, but all the recollections of him are stories of excursions, of duels, of good fellowship and of high spirits.

In 1830 when twenty-two years old, Hermann took his first examination and was in consequence appointed *Auskultator* or apprentice-lawyer to the court in Torgau. This was his first post in the public service. Here he remained a year, and while here he performed also his military service. For to him, as to all men of proper academic standing, there was open the possibility of commuting his required military service for the delightful but

expensive year as a "one-year volunteer" officer-apprentice.

At the end of this year he returned to Naumburg to prepare for his second examination. This he took in the autumn of 1833 and was appointed *Referendar* or apprentice-judge. Thereupon he spent some time in studying criminal law in Wittenberg, and in April 1834, he returned to Naumburg to complete the work required for his third examination. Here in Naumburg he again seems to have acquired a wide circle of friends by his geniality and companionability. Here also he indulged in a more or less serious love affair.

In 1835 just as he was completing his preparation for this third examination, he received word that his father was seriously ill and needed him badly as a deputy. Curiously enough it was possible for the father to appoint his son to act in this way. This is all the more strange because the office was an important one. This post of *Patrimonial-Richter,* which his father held, has no modern equivalent. It corresponds somewhat to the old English justice of the peace. Its duties can be understood best if we translate the title as "patriarchal judge." The incumbent of the office tried as a court of original jurisdiction both civil and criminal cases. In addition, it was his duty to supervise the police, the village administrations, the church, the school system, the country roads and the maintenance of public order. Hermann's father had a long list of places in which he held court, for his district was a large one. As his father's deputy the son now took up all these duties and performed them effectively. As usual, he rapidly formed a large circle of friends. In this position as *Patrimonial Richter*, Hermann had a very exceptional opportunity to study the economic life of his neighborhood. Indeed, it would have been difficult to devise any kind of work which would more effectively train a man to understand the economic life of peasant and artisan.

By the spring of 1837 the father had recovered sufficiently to allow the son to return to his studies. Toward the end of that summer, therefore, Hermann went to Berlin to take his third and last examination. On January 8, 1838 he took the oral examination and was granted a commission as junior judge of the provincial court of appeals.

After receiving his commission he served for a while without pay as a member of the court at Naumburg. Then followed various other posts until the sickness of another relative, Judge Hildebrandt, called him home again in the autumn of 1840. This relative, like Hermann's father, held the post of *Patrimonial-Richter* with a circuit near the latter's. Again young Schulze served as deputy, and again gave satisfaction. Therefore, when that relative died in the spring of 1841, the post was at once conferred upon young Schulze together with a special order which assured his eventual return to the regular judicial service.

For the next eight years in this country town of four or five thousand inhabitants, our blithe young bachelor held the post of *Patrimonial-Richter*. The earlier years of this service were marked chiefly by excursions, song festivals and the like. In the course of this joyous life he organized a chorus with which he took frequent Sunday excursions to the neighboring towns. At first this chorus included only a group of friends somewhat similarly educated. But during the forties a democratic spirit began to be felt in Germany and in accordance with this spirit working people also were admitted to the chorus. To make this admission effective, measures were taken to hold down the expense of the excursions so that the chorus might be democratic in fact as well as in theory. The relative leisure of the earlier years of his service gave him opportunity also to make several rather longer journeys.

The crop failure of 1846 was the particular occasion which

turned our gay young official toward the course of his larger usefulness. But the first step was mild and natural enough. From among the most well-to-do members of his chorus, Schulze formed a committee to help those who were suffering. This activity was one of charity only, not of reform; but it was in this fashion that he took his first step away from the attitude of benevolent passivity. His committee proved very efficient and secured wide support. A grist-mill was rented, and a bakery; then grain was purchased in large quantities and bread prepared. To the very poor this bread was given free; to those in distress, but less needy, bread was sold at half price. Thus in general the price, for them at least, was not greatly different from the usual figure. In the following spring at points all over Prussia there began to be food riots and wholesale robberies of the grain elevators, a series of outbreaks which were checked only by martial law. Delitzsch, however, escaped this disturbance and expense, in part because of the uncompromising attitude of our young *Patrimonial-Richter* and in part, perhaps, because his effective charity organization had already removed the chief cause of the rioting.

This winter of 1846-'47 was a season of particular distress in a period when times had been none too good. Thus 1847, as might be expected, was a year of political unrest. The Landtag met, demanded a constitution, was refused and dissolved. Then came a winter of violent discussion, the revolution in Berlin in March 13-16, 1848, and finally the king's appointment of a Liberal ministry with his promise to summon parliament. In the election of May, 1848, the candidate of the Democratic party, our Schulze, was chosen to represent the district of Delitzsch.

When the national assembly met, in the following October, it soon appeared that there were a large number of members named Schulze. So to distinguish himself from the others

Hermann adopted the name by which he was ever after known—Schulze-Delitzsch. It also appeared very promptly that the assembly was deluged with petitions from various working-men's organizations. It was necessary to go through these petitions, and to work out for the assembly some statement of the various grievances and the kinds of relief demanded. To the committee which had this task in charge Schulze-Delitzsch was appointed as chairman. The report of this committee was never presented to the assembly, but its preparation certainly formed part of Schulze's marvelous education for the work he was to do, for these petitions contained not only statements of the petitioners' needs, but also descriptions of the various institutions, cooperative and otherwise, that were being used in efforts to meet those needs.

Perhaps it was the grievances which he discovered by reading some of these 1600 petitions that prepared Schulze's mind for the vigor of his next step. Perhaps it was his youth combined with the aggressiveness and daring which always characterized him. At any rate, it so happened that one of the assembly's first debates came on the question of whether it should call itself a constitutional assembly or not. Naturally the reactionaries were opposed. In a short speech Schulze-Delitzsch supported the reactionary position in this matter—but on the ground that the question was a formal one only and delayed the more serious business of replacing the bankrupt absolutism by a constitutional monarchy. At a time when even the claims of the Prussian monarch to divine right were accepted pretty generally, this speech because of its drastic quality, called attention to its maker. It aroused against him the bitter hostility of the autocracy, an hostility which became one of the most important facts of his life for the next ten years.

Curiously enough the last act of this assembly was to

pass a resolution of our Schulze-Delitzsch. Driven out of its regular meeting place by military force, the assembly met in various informal places. On the fifteenth of November, as it was debating a vote of want of confidence, which had been presented by Schulze-Delitzsch and two others, soldiers came into the hall which they were then using and closed the assembly by force—but not before it passed his resolution unanimously.

Then came the reaction. On the second of the following January a royal order concerning the organization of the judiciary abolished the *Patrimonial-Richter* and consequently Schulze-Delitzsch's job. Theoretically these judges were irremovable as are the American federal judiciary. Furthermore, they could not, according to Prussian law, be transferred from place to place without their own consent. But the autocracy decided that this article of the constitution did not apply in their case. Thus in the eyes of the autocracy Schulze-Delitzsch was still a judge and was without an income merely because he happened to be temporarily awaiting appointment to some particular court.

In February of this same year, 1849, Schulze-Delitzsch again became a candidate for the assembly and was reelected in spite of the bitter opposition of the reactionary party. In this parliament Schulze-Delitzsch seems to have taken little or no part in the discussions of domestic affairs, but he did make a rather noteworthy speech urging that the king of Prussia accept the crown of German emperor which had been offered him by the abortive Frankfort parliament. However complimentary such urging might have been, it certainly was not without embarrassment to the Prussian king.

In this year also Schulze paid a short visit to Rodbertus, the Socialist, and incidentally availed himself of the latter's excellent library, which included a wonderful collection of

material on cooperation. Apparently, however, neither of these remarkable men influenced the more fundamental views of the other. After this visit he returned to Delitzsch, closed up his work there and turned over the office which had formed so large a part of his life.

In April of this year (1849) democratic suffrage was replaced by the three-class voting-system which kept the appearance, but destroyed the substance of universal suffrage. Then in May there began the trial of Representative Waldeck on the charge of treason. It was alleged that he had planned to establish a social-democratic state. After a very exciting trial he was pronounced not guilty. Thereupon the king demanded of the assembly the creation of a special tribunal to deal with treason and other crimes against the safety of the state. In this special court there was no jury. The judge was to pass on the facts. Through such a court with its personally appointed judges the king could punish any man by merely calling his action treason. But in order to secure the king's assent to the new constitution the assembly yielded, thus establishing one of the institutions by which Prussia was, even in 1913, distinguished from the rest of the civilized world.

The next step taken by the autocracy was to accuse Schulze-Delitzsch and forty-one other members of the national assembly of high treason. Their particular crime consisted in their refusal to vote the taxes demanded while they were members of the assembly. But it was promptly pointed out that under the law of June, 1848, this was no ground for criminal proceedings. Then the government decided that, although they had the right to refuse the taxes, they had no right to make their refusal known. Their publication of this resolution of the assembly, it was charged, was an incitement to riot. Luckily for the accused members they could not legally be tried by the newly created special

tribunal. However, it was possible to try them collectively in Berlin instead of individually, each in his home town. The occupations of the defendants in this trial were noteworthy. Of the forty-two accused, eight were clergymen, three were teachers, four were public officials, while eight were judges.

In February, 1850, the case of Schulze-Delitzsch came before the court. It was established that he had repeatedly done what he could to prevent violence during the troublous times. The only evidence against him was his open opposition to the existing government. He conducted his own defence, and made a really notable speech in his closing argument. He contended that he had exercised only his constitutional rights; and in this the jury concurred. All of the forty-two with one single exception were acquitted. Schulze's speech not only affected the results of all these trials, but had considerable political effect as well.

But his acquittal left him in a position none too happy. He was a judge without a court, and without salary, dependent on a hostile administration for assignment. During this year he published his first book, a small volume entitled, *Notes on Trade and Labor Organizations* which gives relatively little indication of the great value of his future productions. Finally, in the autumn of this year he received an assignment. By this he was ordered to Wreschen, a miserable little village in one of the most backward provinces of the kingdom, the province of Posen. Wreschen was inhabited chiefly by Jews and Poles. It contained very few Germans. As was natural, the judge's salary in such a district was exceedingly small.

Being now (1850) in the worst circumstances in which he had ever found himself, Schulze-Delitzsch proceeded to get married. His wife was the daughter of a well-to-do Berlin family. To her he had been attracted by her musical

ability. But it must have been a severe drain upon her courage to follow him first to so uncomfortable a home, and later upon the still less happy course along which his convictions and the hostility of the government united to drive him.

However, his first year in this new post was comparatively happy. It was marked by his settlement of a lawsuit which dated from the previous century. The pleadings in this case had grown so voluminous that judges had in turn become afraid to render any decision. This case was assigned to Schulze-Delitzsch, who was able to settle it to the satisfaction of all concerned before the end of the court term of the following year. During this year also a son was born to him.

The vacation period of the summer of 1851 Schulze wished to use in travelling. But he had some difficulty in obtaining the needed permission from the ever hostile ministry. Only the intervention of his chief secured it for him. Finally, the permission was given, but on the condition that he would not use it to visit Delitzsch, where it was feared his presence would again stir up party feeling of the wrong kind. Schulze accepted the permit and departed at once for Delitzsch where he received an ovation. On his return to work he received notice from the minister of justice that he had been fined a month's pay for his disobedience. Immediately Schulze declared that such a fine was an infringement upon the privileges of the judge's office, and that if one penny were deducted from his salary, he would leave the service of the state. The chief justice of his district tried to get him to change his mind, and then tried to get the fine remitted in view of the excellent work Schulze had done in the previous winter. But both Schulze and the minister of justice remained obdurate. The only possible result of such a situation followed. Schulze tendered his resignation and it was accepted.

October, 1851, found Schulze-Delitzsch in a very serious predicament. The continental preparation for a judge is not precisely the same as for a lawyer. He had never been admitted to the bar. He was out of a job, and practically excluded by the royal hostility from the only occupation for which he was peculiarly fitted. He was middle-aged and far too old to master a new profession easily. He had a wife and child dependent on him. The income from his wife's dowry was scanty, and his own savings were small In this predicament he returned to Delitzsch where his family was given a separate apartment on the second floor of his father's house. For several months Schulze-Delitzsch did nothing. Then he began to do some odd jobs as a law clerk, but for a considerable period his income was precarious, to say the least.

During all this time he had kept up his interest in his less well-to-do townsmen. In the anxious summer of 1849, after he had lost his position as *Patrimonial-Richter* and while the indictment was still hanging over his head, he had founded his first cooperative society. This was a friendly society of the type which provided insurance against sickness and death. It seems to have been similar to the English societies. But it is not likely that it was copied from them directly, for similar institutions had long before this spread into Germany. In the autumn of this year (1849) he founded two cooperative purchasing societies to be described later, and in 1850, the year of his trial, he founded a loan association.

This loan association, as started in 1850, copied the English model with which Schulze now seemed to be familiar through the writings of Huber. This society consisted of honorary members as well as beneficiaries. Even this association marked a step in advance, for in this organization, for the first time in Germany, borrowers were required to make

regular contributions toward the capital of the creditor society.[1] But when Schulze-Delitzsch was sent to Wreschen, the honorary members withdrew. This was partly because of his absence, but largely because of the general spirit of reaction which spread all over Germany in the years immediately after the unsuccessful revolution of 1848. Thus on his return from Wreschen Schulze found in his society only the beneficiary members, the would-be borrowers. And these too were in a bad way, for the society's capital had been mostly lost through unwise loans. By the spring of 1852 it looked as if everything he had ever tried had been a failure, and he was forty-three years old.

At this point Schulze-Delitzsch, without apparently realizing its importance in any way, made his greatest single contribution to progress. This lay in an apparently slight change in the constitution of his society. If he had striven to get in a new set of wealthy patrons or honorary members, perhaps the English history would merely have been repeated, certainly he would not have been the founder of a new type of society. As it happened, he merely accepted the situation as it then was, and reorganized the society on the basis on which it then existed—a society of borrowers only. It was thus the first really independent organization of small borrowers of the lower social class. Thus was created in 1852 his first people's bank.

Before taking up the history of this institution it is well to point out that these associations will have at least one advantage which no movement in cooperative finance had previously had. That advantage is thoroughly trained leadership. Schulze was, through Huber, Rodbertus and otherwise, familiar with the English and French experience. Through his service on the assembly's committee on peti-

[1] M. Fassbender, *F. W. Raiffeisen in seinem Leben, Denken und Wirken*, p. 103.

tions he was familiar also with the Prussian experience. His training in law at least warned him what dangers to avoid, while his experience as *Patrimonial-Richter* had brought him into daily contact with the needs and difficulties of the people he was to help. In addition to this, his own character was well adapted to the task. With one possible exception, certainly no other leader in cooperative finance has ever been so ideally equipped.

From the reorganization of this cooperative society in 1852 until his death on the twenty-ninth of April, 1883, Schulze's life was so absorbed in the cooperative movement that it can be profitably considered only in connection with that aspect of the movement which was his special interest, and to which he gave his name—the Schulze-Delitzsch banks.

CHAPTER IV

Schulze-Delitzsch: His Project of 1852

Because the organization of his first bank formed so decisive a turning point in his life, and because the plans for this institution are so important for our purposes, it seems worth while to study somewhat in detail the steps by which this bank was developed. Let us follow, then, the development of its business policy.

It will be recalled that in the summer of 1849 Schulze-Delitzsch founded a friendly society, and, in the autumn of that year, a cooperative purchasing society for cabinet-makers. Finally, in the winter of that same year, he organized a cooperative purchasing society for the master shoemakers of his village. These were the first true cooperative societies in Germany, if we accept as our definition of cooperative societies the following fairly common description; namely, societies, not for profit on capital invested, which exist to further the economic life of their members.[1]

In his own mind Schulze-Delitzsch's activity throughout was designed to benefit both laborer and small business man. Throughout he seems to have regarded the two as identical. Actually his work chiefly aided the small business man. The members of his associations were, at first at least, men of the rank of our shoe-repair men today, men running their own little shops and doing their own work. These men were handicapped in competition with the larger business enterprises and with factories by this fact among

[1] W. Wygodzinski, *Das Genossenschaftswesen in Deutschland*, p. 16 ff.

others: they could not buy their materials in quantity and could not pay cash. They had neither money nor credit.

To meet this condition, the shoemaker's cooperative purchasing society secured a loan of $720.00 with which it bought in Leipsic a supply of leather. The size of this purchase enabled the society to buy at a lower price than its members were ordinarily able to buy. This supply the society resold to its members at an 8% advance. But, in spite of this increase in price, the shoemakers received their raw material at a price about 15% less than usual. The 8% profit of the society was for three purposes: paying the interest on the borrowed capital, covering the cost of management and building up a surplus in the society's coffers.[1]

But this purchase at wholesale, instead of solving the problem, served only to bring to light a second and more serious aspect of the master handworker's difficulties:— the members of the cooperative purchasing society did not have the money with which to buy this cheap raw material from their own purchasing society. Credit in some form was necessary.

The cooperative purchasing society might itself perhaps have given credit. But at this point Schulze decided on a policy which since that time has been basic in the development of the Schulze-Delitzsch cooperative societies: namely, the separation of credit and sales.

Those who could pay cash were not to have the usefulness to them of their purchasing society handicapped by any credit risks. The high additional cost of goods at retail is in part due to just this credit risk. The good customers and the cash customers are charged enough to cover the losses due to the bad debts and the expense of collecting from some of the credit customers. But the ordinary re-

[1] W. Wygodzinski, *op. cit.*, p. 17.

tailer dare not make an extra charge to cover this extra cost. Only an enterprise that was sure of its market could dare to refuse credit. The market for Schulze's leather was assured, if only he could make his customers able to pay. For this purpose he therefore founded in 1850 his first loan association, to which some well-to-do friends contributed a capital of $140.00.

Schulze-Delitzsch's loan association of 1850 differed from previous charitable loan associations, such as had been customary in Germany, only in the fact that borrowers were required to join, and to contribute five cents a month toward the permanent capital of the society. Here he simply adopted the principle of the English cooperative savings and loan associations, in which the borrowers like the lenders were required to join and contribute to the society's capital.

To us this demand for five cents a month seems amazingly small, even after allowance has been made for the difference in the purchasing power of money. But it must be remembered that for people who could save but little, and were perhaps saving nothing, it was a demand in the direction of increasing independence and self-reliance. In fact, one of the great principles for which Schulze stood dogmatically all his life was that of self-help.

He was thoroughly consistent in this. It was no accident that Schulze-Delitzsch helped first the small business men. He had the political outlook of a classical economist, he had their same ignorance of the advantages of large-scale production, he looked forward to a world in which every man would serve the public interest best by bargaining each for his own private gain. He differed from the English classical economists chiefly in that he was interested in a different set of practical reforms. In particular he desired to give each reliable and honest man a chance to do business

for himself, to remove at least one of the causes of inequality of opportunity.

This first loan union, as has been said, was not original, even in its one unusual aspect, the borrowers' contribution toward capital. In this respect it was much like the building and loan associations. Even in Germany, according to Baer, there were already a large number of such institutions. Like others of the same type, this first loan union did not prosper. Its leader, Schulze, was sent to Wreschen. Its funds were lost through bad loans. Its wealthy members withdrew. All together, when Schulze returned to Delitzsch in 1851, his organization was as nearly a complete wreck as one could imagine. The society then consisted only of a group of men who desired to borrow, but who had neither capital nor credit.

In the meantime a friend of his, Dr. Bernhardt,[1] and a tailor named Bauerman,[2] had founded a cooperative credit society along similar lines in Eilenburg, a town near Delitzsch. But this Eilenburg society, founded October 1, 1850, was distinctive in that patrons and charity-givers were excluded. The membership of the society consisted solely of borrowers. In all previous loan organizations the membership had consisted of borrowers and lenders, or of lenders alone. This Eilenburg society had then borrowed what money it needed on the security of the joint and several liability of its members.

In this latter respect the Eilenburg union only followed the plan which had already been adopted in Delitzsch by the shoemakers' cooperative purchasing society.[1] But this society in Eilenburg was a genuine banking organization. It borrowed in order to lend. This was not true of the

[1] W. Wygodzinski, *op. cit.*, p. 18.

[2] Herrick and Ingalls, *Rural Credits*, p. 257.

Delitzsch shoemakers' cooperative. Furthermore the society in Eilenburg had another interesting feature. Dr. Bernhardt recognized the danger of doing business on too narrow a margin. Under his leadership the society strove to accumulate a considerable capital of its own. To do this each member was urged to contribute a share to the society's capital by means of regular contributions. But this proved difficult, and the society was compelled to depend very largely on borrowed money.[1]

This credit union in Eilenburg started in 1850 with 180 members. By 1852 it contained "586 members to whom it had made 717 loans averaging 200 thalers ($142.00) each. A few years later, however, it disbanded because of a misunderstanding between Dr. Bernhardt and the tailor Bauerman —".[2] To this information Dr. Finck adds that, in order to achieve this success in securing loans for its members, the society had, by the year 1854, borrowed an amount equal to twenty-six times its own capital. Unfortunately, at just the time when the society's business was so extended, a commercial crisis broke out and the society suffered damage which it took some time to repair.[3]

In the summer of 1852 these difficulties had not yet appeared, so Schulze adopted the general plans of the Eilenburg union in the reorganization of his society in Delitzsch. Schulze-Delitzsch, however, did not make the mistake which was later to be made in Eilenburg. He insisted on such contributions from his members that by the year 1854 the borrowed capital of his union was but 3¼ times as great as the union's own capital.

From the time of this reorganization in the summer of

[1] *Supra* and Wygodzinski, *op. cit.*, p. 18.

[2] Herrick and Ingalls, *Rural Credits*, p. 265.

[3] R. Finck, *Das Schulze-Delitzsche Genossenschaftswesen*, p. 32.

1852, the principles of the Schulze-Delitzsch people's banks have been substantially the same. They are as follows: (1) The exclusion of charity and patronage. The society was to be run on business principles. (2) The joint liability of all members for the debts of the society. (3) Systematic borrowing or acceptance of deposits on the basis of this joint liability. (4) Loans only to those who could use them productively. (5) Regular contributions by members toward the society's working capital. (6) One more principle which was adopted later: namely, an inclusive membership, that is a membership open to all worthy seekers after credit, not limited to any one occupation, social class or even to too small a geographical area.

Briefly, this first people's bank could be described as a cooperative savings and loan association which differed from the ordinary English models in three respects: (1) It lent money to members for business use only, and only for short periods. (2) It accepted deposits and borrowed money as part of its regular program. The English societies had done this, but not as a regular business, except, of course, in such unusual cases as the Birkbeck bank. (3) It made explicit the liability of members for the debts of the society. This was not a case of directors individually assuming a responsibility for the benefit of members. Nor was it a case where members, though legally liable, were subject to no real risk beyond the loss of a portion of the amounts they had paid on their shares. It cannot be emphasized too strongly that the fundamental principle of these new organizations of borrowers was the member's unlimited liability to the creditors of the society.

This unlimited liability served two purposes. It reminded members pretty strongly of their duty to see that the society was run properly. It helped to bring home to each man his responsibility for the success of the union.

In the second place it helped to secure for the society the confidence of possible creditors and depositors. The members' only protection lay in the fact that the general assembly imposed on the officers a restriction as to the total amount of debt which the society might incur.

Even as late as the spring of 1852, Schulze-Delitzsch had been extremely unwilling to accept the money of outsiders', that is, to do the very thing which formed the basis of his life work.[1] But circumstances and the absolute need for capital were too much for him. In 1852 he had petitioned the city council in Delitzsch to lend to his society $150.00 without interest. This loan was to be secured to them by the $120.00 which was already the association's property, and by a claim on the monthly contributions of members. In addition to this the city government was to appoint three of its members to the directorate of the society, and one of these three was to be the president of the bank.

Luckily for the future of the cooperative banking movement, this request was refused. Then Schulze-Delitzsch recognized that borrowing from outsiders was inevitable. But even then he regarded this resource as a temporary measure only. It is interesting to note that the by-laws of the Delitzsch bank adopted during this year provided that the entrance fees, the monthly "dues" and one tenth of the annual dividends should be set aside as a fund for paying future costs of operation and for freeing the association from the debt!

The first statutes prescribed the following requirements for borrowers:—(1) The borrower must have been a member in good standing and have paid dues for at least three months. (2) He must not have been convicted of crime. (3) He must not have defaulted on a previous debt,

[1] M. Fassbender, *op. cit.*, p. 125.

either as principal or as surety. (4) His circumstances must be such as to give the necessary security for the loan.

The rule that loans should be granted to members only, has been in practice one of very great importance. Dr. Bernhardt's bank in Eilenburg, the original cooperative bank, had no such rule and had got into difficulties, in part at least, because of these loans to outsiders.[1]

The Delitzsch institution was copied widely, but the copies did not always keep to this rule, that is, making loans only to members. Then in the seventies a period of hard times caused a large number of bankruptcies among the unions which granted credit to non-members.[2] This series of disasters pointed out emphatically to all such unions the wisdom of restricting loans absolutely to their own membership.

In admitting members Schulze-Delitzsch strove hard to restrict the newcomers to those who could meet certain qualifications. To quote briefly from one of his publications: "In order to belong to a union which is founded on self-help, on the members' own strength, naturally one must be in the position to be able to help himself. . . . For the credit unions, if they are to win a lasting success, must absolutely not get themselves mixed up with charity cases; for they are not designed to support the poor, but what is more important—to prevent poverty."

As has been pointed out, Schulze-Delitzsch soon decided that his societies should not restrict their membership to one occupation. His first efforts had been for one group of shoe-makers. Now it seemed desirable to include men from other trades. But not only were other master handworkers included, but all those were to be included who desired credit and were worthy of it. A society which in-

[1] M. Fassbender, *F. W. Raiffeisen*, p. 127.

[2] R. Finck, *Das Schulze-Delitzsche Genossenschaftswesen*, p. 27.

cluded hand-workers only seemed undesirable for several reasons. In the first place a broader membership would make it possible to secure more capital. In the second place a broader membership would throw into the background the jealousies which would be aroused among the various applicants for loans if all the borrowers were trade competitors. In the third place there is greater safety in a fairly broad distribution of credit risks. Finally there were too few of these master hand-workers to make a sizable credit union. For these reasons Schulze-Delitzsch decided on a policy which has, as has been already mentioned, become one of the fixed principles of his societies; namely, a varied membership.[1]

But the description of how Schulze-Delitzsch developed his plan would be meaningless unless we also understood the conditions under which this plan was evolved. We must remember, therefore, that the Industrial Revolution, which had produced such momentous results in England during the period from 1770 to 1830, did not affect Germany until about 1840. Then the appearance of the railway and of the factory began to produce in Germany the same results which had appeared in England fully half a century earlier. In particular this meant that the master artisans, who had until that time literally made by hand the manufactured products of the day, were now subjected to competition from the factories. Being unable to meet this competition satisfactorily, they suffered greatly.

Out of this suffering had come unrest and the political disturbance described in the previous chapter. As was to be excepted, the master artisans who were being ruined desired to reestablish the "good old days" when large scale industry was unknown. In particular there was a continu-

[1] R. Finck, *op. cit.*, p. 24.

ous demand among the artisans for a re-establishment of the gild system.

The gild system would rather naturally appeal to the German workers of that day. While the gild system as a whole had been dead for many years, the legal basis for gild regulation had been abolished within the memory of many of the older men then living, as part of the Stein-Hardenberg reforms of 1808. And among the old gild rules were many regulations which would have hit the new factory owners hard. Among such regulations had been: (1) The requirement that a man serve a long apprenticeship and then serve several years more as a journey-man or wage-earner before he might set up for himself as a master or employer. (2) The requirement that a man pass an examination in his trade before he could set up in business for himself. This examination required among other things that he make a master-piece of the trade-product with his own hands. (3) The limitation of the number of apprentices who might serve one master or employer. (And the employee was an apprentice in many trades until he had worked at it for seven years.) (4) The requirement that the apprentice live in his master's house and eat his meals with his employer's family. The difficulty of operating a factory under such rules need not be enlarged upon.

Among the more significant of the demonstrations of the master-artisans was the Handworkers' Parliament of July and August, 1848, in Frankfort-am-Main. Among its demands were (1) the prohibition of workshops owned by the state or by joint stock companies; (2) the taxation of factories with exemption for handwork; (3) the prohibition of the employment of more than two apprentices; (4) the prohibition of the peddler's trade.[1] (In Germany

[1] R. Finck, *Das Schulze-Delitzschische Genossenschaftswesen*, p. 8.

as in the United States a century ago many factory products were peddled about the country, while relatively few handmade products were peddled in this fashion.)

It will be noticed that these proposals all looked toward the re-establishment of the rigid, legally regulated system of the past. It was no accident therefore that Schulze-Delitzsch was to call his societies the Gilds of the Future. He was working with a group of people whose minds were firmly fixed on the gilds of the past. In such an atmosphere then it is all the more interesting that he saw so clearly that their proposals were backward-looking. In his *Assoziationsbuch* published in 1853 he asks:

"Even if we were really to reintroduce the forms and the regulations which met the needs of our ancestors a hundred years ago, does any one seriously believe that this re-introduction of the old forms would bring back with it also the conditions which existed then?" [1]

It was undoubtedly his knowledge of English industrial history which helped him to see this fact. It was probably his strong bias toward liberalism and Manchesterian economics which made him look for it. But with his opportunity to know about English industrial conditions, it is even more interesting to notice that he failed to realize that the coming of the factory system meant that the larger portion of the independent master artisans would be converted into propertyless wage-earners, that few of the independent hand-workers would be able to compete against the factory. This failure to appreciate the social significance of the industrial revolution was, perhaps, due in part at least to the very excellence of his education along some lines. He knew the work of the English building societies, and in these

[1] H. Schulze-Delitzsch, *Assoziationsbuch für deutsche Handwerker und Arbeiter*, p. 50, quoted by R. Finck, *op. cit.*, p. 14.

building societies there seems to have been contained a fair proportion of those master-artisans who had managed to survive the Industrial Revolution in England.

As it had been in England, so now in Germany it was just this class of hand-workers who were in distress, and it was primarily this class, the hand-workers, whom Schulze-Delitzsch sought to benefit. Finck says of him that he was

> firmly convinced of the capacity of handwork to survive and of its right to exist in the future in so far as the master-artisan would himself show this capacity through his own industry. But never did he wish to see this survival brought about, as the hand-worker's own representatives desired, through legal protection from the competition of a factory system which was proving itself to be the superior, but rather he wished to see this survival attained by the ability of hand work to meet this competition.[1]

To Schulze-Delitzsch's mind the advantages of the factory owners lay chiefly in their possession of capital and credit. The remedy therefore would lie in securing credit. "Instead of complaining about the encroachments of the factory system and of commerce, or the excessive power of capital, people ought rather themselves to seize upon the advantages of factory and of mercantile methods, and to make capital useful to themselves. If you only will try, you can do it." [2] By means of short-term commercial credit he hoped to make the hand-worker able to compete with the factory! But in his belief in this possibility Schulze did not stand alone. In the Germany of 1850 the advantages of large-scale production were but little understood. Nor was he alone in his belief that cooperation among the hand-workers would

[1] Finck, *op. cit.*, p. 15.

[2] Schulze-Delitzsch, *Assoziationsbuch*, quoted by R. Finck, *op. cit.*, p. 16.

solve the problem. Many, besides Huber, shared this belief.

Schulze's great contribution to this period was not at all the idea of cooperation or even of cooperative banking. Those ideas were already in the air. Cooperative organizations existed in all parts of Germany, while in Berlin alone there were by 1850 no less than 115 cooperative loan societies of one kind or another.[1] But these organizations had not been very successful. Their numerous failures had disgusted everybody.[2] Schulze-Delitzsch's great contribution was that of taking their ideal and making it practical. And his first contribution toward making it a practical, effective institution was the development of the six principles on which he started his reorganized loan society in Delitzsch:[3] namely—(1) the exclusion of charity and patronage; (2) the joint liability of all members for the association's debts; (3) borrowing on the basis of this joint liability; (4) lending the capital only to those who could repay; (5) regular contributions by members toward the capital; (6) a broad membership.

[1] R. Finck, *op. cit.*, p. 12.

[2] *Ibid.*, p. 13.

[3] Crüger in his *Grundriss des deutschen Genossenschaftswesens* gives 1853 as the date of this reorganization but without citing authority.

CHAPTER V

Schulze-Delitzsch: His Thirty Years of Leadership

Schulze-Delitzsch's activity as a political leader would necessarily, in any well-balanced account of his life, play also a leading role. His popular importance as a political leader was greater than his importance as the inventor of a new type of cooperative syndicate. To understand his life, then, it is necessary to understand the political life of his times. Even for our more restricted purpose, which is merely to review the history of a type of banking, it seems worth while to glance at the general political situation in Germany, because that situation not only affected Schulze-Delitzsch and through him his organizations, but it affected these societies very powerfully in a more direct fashion.

With the downfall of Napoleon and the Congress of Vienna (1815), Germany, or rather the various German states, had been handed back to their multiplicity of princelings as thirty-eight separate sovereignties. The princes of these various states were then loosely united in a German Diet, presided over by the Emperor of Austria.

Of national unity, popular government or liberal institutions there was scarcely a trace—save in the hopes of the radicals. In the course of the next half-century sentiment in favor of all three of these ideals spread, but there were few milestones to mark positive achievement in any one of the three directions. The year 1830, so fruitful of revolution and progress in other lands, produced in the Germanies some progress, especially in the smaller states; but the larger

ones remained undisturbed. A slight step in advance was made by the creation of the German Zollverein in 1834, but the various German governments were still for the most part autocratic, particularistic, reactionary and illiberal. Even the revolutionary year, 1848, though it called forth a great expression of popular aspiration, was, as we have seen, substantially barren of result. With the failure of this effort there came a period of intense reaction which lasted until the regency (1858) or accession (1861) of William I. It must not be implied from this that the new king was by any means a liberal. He was merely more intelligently autocratic. He was able enough to control his own bureaucracy and to appoint a more gifted set of ministers.

The two great problems of Germany in 1850 were popular government and national unity. In Prussia the immediate political struggle centred in the efforts of the king to build up an army with which, as afterward appeared, he was to secure a German unity. Opposed to this were all those who felt that not even national unity was worth the cost of its achievement in this fashion, and all those who felt that a great standing army was a menace to popular government. To this latter party Schulze-Delitzsch belonged. It was this group of determined Progressists who blocked the army appropriations and whose opposition caused the king in 1862 to summon Otto von Bismarck from Paris to "tame" his parliament. Bismarck's failure to change their position was followed (1863) by his illegal assessment and collection of taxes despite parliament. This in turn was followed by the war upon Denmark (1864), the quarrel with Austria over the division of the spoils (1865), and the Seven Weeks War with Austria (1866). With the prestige of these victories and by an apparent conversion to more liberal ideals, Bismarck was now able to secure from Parliament immunity for his illegal action and also the vote

of the desired taxes. He was furthermore able to push through the creation of the North German Confederation which was later to aid him in the war of 1870 against France, from which resulted the creation of the German Empire in 1871.

The life of Schulze-Delitzsch (1808-1883) just overlaps these eventful years, and before continuing his story it may be profitable to review what he has already done. His childhood and youth just covered the period of most intense reaction. The end of the "Era of Metternich" (1830) was marked for Schulze by his first examination in law and his appointment as *Auskultator* or apprentice-lawyer. 1833 marked his passage of the second examination and his appointment as *Referendar* or apprentice-judge. 1835 was the date of his father's sickness and the beginning of his service as deputy *Patrimonial Richter*. His third examination and the appointment as junior judge without pay followed in 1838. In 1840 he was summoned to act as deputy for Judge Hildebrandt, and was appointed to the latter's place in 1841. During the first five years of his tenure of office there was little of note beyond his travels and his organization of the chorus. This period of his life, the thirty-eight years up to 1846, may be called Schulze's period of preparation.

Schulze's public life may be said to begin with the year 1846. From this time until his death thirty-seven years later his activity was marvellous. Only two of these thirty seven years passed unmarked by the completion of at least one task of real public importance; though the achievements of the first few years, it must be admitted, were of a much lower order than his later service. The first of these earlier years (1846) was marked by the crop failure and his effective organization of local charitable efforts. In the year following (1847) Delitzsch was kept free from the riots

and mob violence which marked many neighboring communities. The revolution of 1848 was followed by the summoning of the Prussian Diet and Schulze's election as deputy. His exciting career in Berlin has already been recounted. In the following year he lost his post as *Patrimonial Richter* but served again as a representative in the Prussian Diet. In this year (1849) also he organized his first cooperatives, the friendly and purchasing societies. In the following year (1850) came his trial for incitement to riot, his acquittal, his organization of his first loan association, the publication of his first book, his assignment to Wreschen and his marriage. The next year in turn (1851) was marked by the birth of his first son, by his settlement of the long-fought law suit, his vacation in Delitzsch, his fight with the ministry of justice and his return to Delitzsch, a man of forty-three without a job and without prospects. In the following spring came his reorganization of the wreck of his loan society in Delitzsch. But with the reorganization of this society Schulze-Delitzsch may be said to have entered upon the broad avenue of his constructive public service. The years from 1846 to 1852 marked the period of his experimentation. During this time he was still the young-man-in-a-hurry. His early cooperatives and his violently democratic position in the House of Representatives were both the products of a desire to get results promptly. From this time forth Schulze-Delitzsch dealt in movements that would slowly unfold to their full development. He has now become content to do a work of slow achievement and of education.

There is a pathetic touch in the fact that November, 1852, when Schulze-Delitzsch was still trying to start life over again after his stormy departure from the government service, was the month in which his father, the elder Schulze,

celebrated the completion of his fiftieth year in public office. The son's speech on this occasion showed plainly the disappointment which both he and his father felt, at the fact that the magistracy, so long a family possession, was about to fall into other hands.[1] The son was even tempted into taking the occasion of this celebration as an opportunity to defend himself before his father's friends. In his speech he pointed out that his family had always been citizens first of all. They had also been magistrates only so long as it was consonant with their duty as citizens. But for all his father's blessing and his brave words, the situation must have been a bit embarrassing for Schulze-Delitzsch. Even if it did happen to be known to his father's friends, his reorganization of an unsuccessful society among a group of men who were comparatively unknown even in their home town, was scarcely an achievement of such magnitude that he could then point to it with pride. The celebration for both Schulze-Delitzsch and his father must have been much tempered with sadness.

In the spring of the following year (1853) however, things began to improve a little for the family. Schulze-Delitzsch found a briefless barrister with whom he entered into a working partnership, by which the barrister handled the court work while Schulze-Delitzsch prepared the papers. Later several other barristers offered him their work of this kind and a certain amount of trustee business came to him also. Thus by the time his second son was born, his income from private work was as large as his salary as judge. But unlike his salary it continued to grow until the time, several years later, when he was again called into public life.[2]

In the same year in which he thus solved the problem of

[1] Dr. A. Bernstein, *Schulze-Delitzsch, Leben und Wirken*, pp. 90 *et seq.*

[2] A. Bernstein, *op. cit.*, pp. 89 *et seq.*

supporting his family (1853), he gave evidence that the two preceding winters had not been wasted, for Ernst Keyl in Leipzig brought out Schulze-Delitzsch's second book.[1] This was entitled *Assoziationsbuch für deutsche Handwerker und Arbeiter.*[2] This book contained a description of his own work in Delitzsch and an account of the cooperative systems which existed in France and England. Then the author pointed out the advantages which such unions could give to their members in many cases. To this he added a classification of the various kinds of cooperation then in existence, reducing them finally to two fundamental types, with various sub-classes. These fundamental types he then classified according to the difficulties involved in establishing them under modern conditions.[3]

The lowest grade of cooperative organization, Schulze thought, consisted of cooperative stores and of the cooperative credit societies. The latter would be relatively easy to establish because the small tradesmen and artisans were in such desperate need for capital, in order to compete with large-scale business and to free themselves from their dependence on the sellers of raw material. Such a society should be open not only to small business men but to all poor people living in a town who were similarly in need of credit. These organizations, maintained only because of the pressure of immediate need, would nevertheless in time educate their members in cooperative activities and prepare them for organizations of the second type.

The second grade was defined as "Associations for

[1] *Cf.* Bernstein, *op. cit.*, pp. 101 ff.

[2] H. Schulze-Delitzsch, *Assoziationsbuch für deutsche Handwerker und Arbeiter* (Leipzig, 1853).

[3] *Cf.* also criticism of book by R. Finck, *op. cit.*, p. 17 ff., but especially M. Fassbender, *F. W. Raiffeisen in seinem Leben, Denken und Wirken* (Berlin, 1902), p. 120 *et seq.*

Special Tasks". Among such purposes were to be included organizations for purchasing raw material, societies for the joint ownership of machines or workshops, warehousing associations and marketing organizations. These were alike in that they provided the prerequisites of production. In turn they were to educate their members for a still higher and more difficult type of cooperation.

The crowning type of cooperation was to be found in the associations to carry on an industry for the common account, i. e. the cooperative factory. In this were to be realized all the advantages of cooperation—cheap credit, modern machinery, wholesale prices in purchasing materials and large-scale organization for sale. In these were to be united the business man, the laborer and the artisan. He then carefully and clearly stated the practical difficulties which made the successful operation of such societies impossible at present, but offered his belief that in organizations of this type was to be found the goal of the whole movement.

Such near-socialist or at least collectivist views seem strange when expressed by a man who regarded competition as the great regulator of economic life. And it must be remembered that Schulze-Delitzsch never lost his admiration for the competitive system nor his love for the regime of industrial freedom which was then best exemplified in England. But neither did he lose hope that his system of credit societies would lead to others of the next higher rank. His work had started with cooperative purchasing and this aspect of the movement long aroused in him a special enthusiasm. Only the progress of German economic life away from this goal, a progress which became unmistakable during the great boom of the early seventies, finally caused him definitely to give up his hopes in this direction.

In the mean time the publication of this work gained for its author the suspicion, if not the dislike, of the capitalists

and large business men. Few men have made a more rapid collection of enemies than did Schulze-Delitzsch. He was now hated by the autocracy, distrusted by the conservatives as a revolutionist, and finally also suspected as a near socialist, at least in so far as he was known, by the capitalists who formed the back-bone of the resistance to the autocracy and to the land-holding conservatives. Nor was he yet through with his collection of foes. But this seems to have disturbed him little. He fought with the abounding energy and apparently the vigorous enjoyment of a Theodore Roosevelt, and his enemies at least did something to advertise him.

During the next five years his method of earning a living left him still with considerable leisure. Therefore it was possible for him to travel about, at least to the nearer towns, and to explain his views on cooperation. Thus there soon began to be a very considerable number of societies erected after the model of the organization in Delitzsch. Conspicuous among these were the banks in Eisleben, Halle, Leipzig, Meissen, Braunschweig, Wolfenbüttel and Celle. Schulze-Delitzsch was a born propagandist as well as a fighter.

By 1854 the movement had got so far advanced, at least in Schulze-Delitzsch's own mind, that he felt the need of a special organ through which to express his views. This he found through the cooperation of G. Wieck, owner and editor of the *Deutsche Gewerbe Zeitung,* who offered him space in that journal. Then for six years, from 1854 to 1861, acting as an editor without pay, he prepared regularly for this periodical a special section which bore the title "*Die Innung der Zukunft*", "The Gild of the Future". In this section he not only explained his views, but began also to report the condition of the banks which were organized on his plan. Thus he began in 1854 the

series of reports whose excellence has formed one of the remarkable features of his portion of the cooperative movement.

By the following year the success of his cooperative societies began to attract for him the favorable attention of those men, who had with him been interested in the success of the Democratic party back in the days of 1848, when democratic government had seemed a possibility. Here was a promising social reform movement led by one who was not only independent of the government, but was even hostile to that autocracy which they hated. Schulze-Delitzsch began to be a political figure. But just as the success of his people's banks gave him political prestige with the Democrats, so his political position as a prominent Democrat called the attention of the government to his organizations. In 1855 the Prussian Minister of Westphalia ordered all new banks of this type to secure a permit or license from the authorities and to agree to give these authorities the power to revise their by-laws, supervise their management, and to dissolve them if they desired.

This demand of the Westphalian ministry was based on a statute of 1851 which subjected to such supervision friendly societies of practically all kinds (except the local dividing clubs). If securing the license had been merely a formal process, perhaps no objection would have been aroused. But the officials showed promptly that it was not. They refused a license to the society in Osterfeld on the ground that there was no need for such an organization there. And a license was refused the Prenzlau bank on the ground that the interest rates were usurious.[1] Evidently the officials intended to block the movement's growth. Thus the matter had to be taken up in court. A judicial

[1] R. Finck, *op. cit.*, p. 83 *et seq.*

decision was secured which classified the peoples' banks with private companies rather than with friendly societies, and the ministry was compelled to withdraw its order.

Even after this legal battle was over, the bureaucracy tried for a long time to subject the "general assemblies" of the banks' members to police supervision on the ground that they were "public meetings". In Hanover this police supervision was so strict that the people's banks in that kingdom were soon tempted to dissolve. But in Saxony the authorities were more tolerant, and in the Electorate of Hesse the authorities even went to the extent of encouraging the organization of people's banks. But it was only in these smaller states that such liberalism could be found. In the larger kingdoms the official attitude remained hostile.

These legal problems seem to have occupied most of the time Schulze-Delitzsch could spare from the task of supporting his family and editing his supplement during the years 1855, 1856, and 1857. But the last of these three years was marked by two other events. In 1857 he secured the assistance of the only other great German authority on cooperation, Victor Aimé Huber; and for the next few years Huber contributed regularly to the "Gild of the Future". This assistance from Huber was important, not solely because it brought to the little supplement another able writer, but also because of Huber's political position. Huber, it will be remembered, was something of a royal protégé, and was certainly one of the leaders of the Conservative Party in Prussia. His cooperation was particularly fortunate for Schulze-Delitzsch because the former's absorption in the ethical problems of cooperation and his indifference to the practical detail left Schulze-Delitzsch without opposition in the practical development of his organizations at the same time that it gave to them something of the standing

with a reactionary bureaucracy which the people's banks then so sorely needed.

The autumn of this year (1857) was further marked by the first public recognition of his work. This came in the form of an invitation to address the *Congrès international de bienfaisance.* In the lecture before this congress on charity Schulze-Delitzsch seems for the first time to have tried to get together into comprehensive tables the various figures which were now available with regard to the people's banks.[1] But eager as Schulze-Delitzsch was to secure backing for his movement, he recognized that a conference on charity could not give him the kind of backing he needed. His movement was not one of charity, but of self-help.

The year 1858 was largely spent then in trying to create a special body which would interest itself in movements like his own, which were self-supporting. For this purpose he first called a meeting in the Hotel Zandsberg at which such an organization was planned, and Dr. Böhmert and himself were appointed to make the arrangements. This year he also published his third book, which was entitled *The Working Class and Cooperation.*[2] This volume was chiefly important because in it he presented, with some additions, the statistics he had prepared for the International Conference on Charity. In it also he explains his program for the new body. As a result of this activity there was held in Gotha, on the twentieth of September, 1858, the first meeting of the "Congress of German Economists", an organization which has now had a useful existence for more than half a century. At this first

[1] A. Bernstein, *op. cit.*, p. 105.

[2] *Die arbeitenden Klassen und des Assoziationswesen in Deutschland als Programm zu einem deutschen Kongress,* by Hermann Schulze-Delitzsch, published by G. Mayer (Leipzig, 1858).

meeting there was naturally a special session devoted to cooperation, although the chief topic of discussion for the meeting was protection or free trade.[1] This year also brought one more change which was destined on the whole to be favorable to the new movement. The insanity of the Prussian monarch caused the appointment as regent of Prince Wilhelm, later William I of Germany. This change caused in the course of time a reactionary bureaucracy to be replaced by an intelligent autocracy. The autocracy in the course of time gave a little more freedom to the new movement.

In the following year (1859) the Congress of German Economists again showed its interest in the Schulze-Delitzsch movement by discussing the various aspects of the cooperative form. And they made one really valuable contribution to the movement by christening the societies with a new name. Up to this time the peoples' banks and purchasing societies had been known by various different names, such as "association", "union," and "company", the most common being "association". But each of these words was used in other connections also. This congress now revived the word *Genossenschaft* and recommended that it be applied to these organizations whose common quality was that they were self-supporting institutions designed to forward the economic life of their members.[2] Only at a later time was the definition further restricted. But the movement from this time on had the advantage of a distinctive name. *Genossenschaft* is ordinarily translated by the English word "syndicate", but the translation is very poor. The cooperative societies in English-speaking countries are now in the same situation that the German

[1] M. Fassbender, *op. cit.*, p. 129.

[2] M. Fassbender, *op. cit.*, p. 130.

organizations were in before 1859-1867. The more highly developed have no distinctive word which marks them off sharply from other forms of organization. In the absence of such an English word *Genossenschaft* can not be translated.

But Schulze-Delitzsch was passing through the same development with regard to the organization and advertising of his movement which had been traversed in the organization of the bank itself. Started with patronage and help from the outside, it developed into a purely self-supporting organization. Now that the German economists were interested, Schulze-Delitzsch became ready to create an independent organization of his societies. But first he took one hint from his patrons. The economists had been as interested in the cooperative stores and the purchasing societies as in the banks. Thus in the year 1859 Schulze-Delitzsch began to report the condition of all his societies instead of just the peoples' banks. With the publicity which the organizations had gained through the discussions of the economists, Westerman, the editor of a monthly entitled *Unsere Tage,* became interested; and the business statistics for the preceding year (1858) were thus published in that magazine. In this fashion they reached a wide circle of readers.

This year (1859) Schulze-Delitzsch invited the unions to meet in Dresden for the sake of "discussing the institutions existing in the various unions and the experiences they have had and an understanding concerning the interests which should be pursued in common". But a meeting of this kind was as welcome in Dresden as a strike meeting would be in an American chamber of commerce. The Kingdom of Saxony prohibited the assembly. Luckily the ever-liberal petty state of Weimar was not far distant and the meeting was held there June 14-16, 1859. This formed

the first of the great annual meetings of the Schulze-Delitzsch cooperative societies which have now occurred, except in time of war, for more than half a century. Twenty-eight unions in various German states, including one union in Austria, sent their delegates to Weimar, and here it was decided to create a central office or secretariat whose purpose was "to clear the way for business connections between the unions, for the exchange of mutual experience and an understanding about the common purposes". Very naturally Schulze-Delitzsch was chosen to take charge of this office, and it was planned to make the office a salaried position. Thus for the first time he was to be paid for the valuable work he had so long done for the movement. Before the end of the year thirty-two organizations had joined this central bureau.[1] This was, it must be admitted, a small proportion of the two hundred or more cooperatives already in existence. There have probably always been more cooperatives outside his organization than within it, but these thirty-two formed a safe beginning.

No sooner was the organization of his secretariat achieved, than his public spirit and his genuine talent for organization led Schulze-Delitzsch off into a new field. The months from April to July, 1859, were the period of the war between Austria on the one side, and France and Sardinia on the other, over the question of Italian unification. The spectacle of a neighboring nation making actual progress in the direction of political unity revived in many Germans the hopes they had so fondly held in 1848 of a real German nation. Furthermore the apparent weakness of Austria seemed for a moment to make some achievement possible. During this war there happened to be a preliminary meet-

[1] R. Finck, *op. cit.*, p. 60.

ing of some of the officers of cooperative societies in Weimar. On Whitsunday, after the regular cooperative meeting was over, Schulze-Delitzsch talked the situation over with two of his friends, attorneys who had been present at the earlier meeting. The three agreed that in view of the regency and of the Italian war, this would be a good time to start again an agitation for national unity, and for this purpose they united in a call for an "Assembly of German Patriots".[1]

In response to this call a second meeting was held at Eisenach in July of this same year (1859). At this assembly there were thirty people present, chiefly from the states of central Germany. Schulze-Delitzsch was the sole member from the great Kingdom of Prussia. But, nowise discouraged, these thirty voted to hold later in that same summer a second assembly in Eisenach. This meeting was still slimly attended but, still undaunted, they issued a proclamation calling a meeting at Frankfort in September of the same year. Frankfort was chosen because the Economic Congress was already scheduled to meet there at that time. Some two hundred men attended this third meeting. On the journey thither Schulze-Delitzsch talked over with some of his friends the wisdom of forming a permanent organization. This was done, Schulze-Delitzsch serving as chairman of the committee which drafted the constitution. Coburg was decided upon as the central office of the organization and von Bennigsen was elected president. The name chosen for this new organization was the *Nationalverein* or "National Union".

During the remainder of this winter Schulze-Delitzsch seems to have busied himself with the plans for the organization of his central bureau or secretariat, and in January, 1860, he published in the "Gild of the Future" his plans

[1] A. Bernstein, *op. cit.*, p. 107 *et seq.*

for his work as secretary. Each cooperative society was to pay him two per cent of its annual net profits, subject to two restrictions. No society was to be expected to pay more than twelve thalers ($9), however large its earnings. On the other hand no society was to pay less than two thalers ($1.50) no matter how small its profits. To Schulze-Delitzsch this seemed like an overcharge of the smaller societies, which he justified on the ground that these were the very organizations which were most in need of counsel and aid. He then points out that pay on this basis would probably bring him an income of $150 to $200 which would not exceed a third or a fourth of the average income of a lawyer in the Prussian cities of moderate size. (The range of legal incomes is interesting.) Furthermore he pointed out that even that income was uncertain.

In return for this chance to earn two hundred dollars a year Schulze-Delitzsch promised to devote to the movement as much of his time as was necessary to perform the following tasks:

(1) Representing and extending the cooperative movement in the press, at meetings of the Economic Congress, and in public life, especially the protection of the interests of the union before the legislatures of the various states.

(2) Aiding the movment by word and deed, especially by founding new societies and by advising with regard to current problems.

(3) Acting as an intermediary between the various cooperative societies.[1]

The second annual meeting of the cooperatives was held at Gotha in 1860. At this meting Schulze-Delitzsch pre-

[1] Article from *Innung der Zukunft* quoted by Bernstein, *op. cit.*, pp. 135-141.

sented the first fruits of his work as secretary of the movement in the shape of a bill for a proposed cooperative law.[1] At this meeting there was created at the secretary's own request a committee or board of directors to supervise his work. The secretary was furthermore instructed so to keep track of the condition of each bank that those which had temporary surplus funds could lend them to those banks that were temporarily in need of loans. This greatly increased the volume of the work in the secretary's office and Schulze-Delitzsch was obliged to give up all other work and devote himself to this office.[2] The increased pay for this seems to have come largely as the result of the increasing membership of the bureau. But these matters were now all regulated by the convention's "committee".

By this time quite a few of the keener observers were beginning to see the social significance of the Schulze-Delitzsch movement with its mottoes, such as "Value for value, service for service", and "Show yourself worthy of credit and we will enable you to secure it", and two of these observers, Huber and Roscher, appreciated the personal contribution of Schulze-Delitzsch to the movement sufficiently to express their appreciation of his work publicly.[3] But such praise was still rare.

In the mean time the third of the organizations which Schulze-Delitzsch had fathered, namely, the National Union, was continuing its work of education and of propaganda. The ministry at this time was in the hands of the Liberal Party, and this party consistently maintained their opposition to the Conservatives, but the issue had changed and they did not show themselves equally opposed to autocracy. Thus there began to be discontent among the radical ele-

[1] R. Finck, *op. cit.*, p. 60.

[2] M. Fassbender, *op. cit.*, p. 130.

[3] A. Bernstein, *op. cit.*, p. 142.

ments such as the remnants of the Democratic Party of 1848 and the members of the newer National Union. In the elections of December, 1860, this element even secured a few seats and also a nick-name, the *Jung-Litthauen.*

The debates of the next year brought out even more decisively the fact that the real issue before the country was the increase in the army and on this issue the Liberal Party was too uncertain to command public confidence. In the elections of that year a number of the radicals ran for office, and among them Schulze-Delitzsch. In the course of his campaign he was compelled to explain that he had never said that the house of Hohenzollern was a bankrupt absolutism but merely that absolutism as an institution was bankrupt. However he still maintained vigorously that absolutism was bankrupt; and largely on this issue he was elected.

With this election of 1861 began the long public service of the cooperatives' leader. His membership in the Prussian House of Representatives was continuous from 1861 to 1875. And even after this was over, he served additional years as a member of the Reichstag.[1] For the next few years the life of Schulze-Delitzsch sounds like a triumphal march. But even as late as the opening of this 1861 session of the legislature he was still a relatively unknown member of a badly outvoted minority. At the close of this session however this minority got together some of the old Democrats, some of the National Union and one of the more radical of the Liberal newspaper owners, to organize a party dedicated to "Progress—toward the creation of a constitutional government and of a German confederation under Prussian leadership". Thus was born the Prussian Progressive Party.

[1] Schmidt, article on "Schulze-Delitzsch" in *Handwörterbuch der Staatswissenschaften.*

In the elections which followed shortly after the formation of this party, their success was so surprising that they could have contested with the Liberals for the leadership of the anti-Conservative elements. But any such break was prevented by the king's prompt dissolution of the house in March of the following year (1862).[1]

In the mean time Schulze-Delitzsch had not neglected his duties as leader of the cooperative movement. The Gild of the Future had been changed from a mere supplement of the *Gewerbe-Zeitung* into an independent publication (1861). The name of the bureau had been quietly changed to "Counsellorship" and Schulze had assumed, at first without particular authorization, the title of "Counsel" to the cooperative societies. A third general meeting of the cooperative societies had been held in Halle, and at this meeting it had been decided to organize subordinate leagues for the various parts of the country with special subordinate leagues for the different kinds of cooperatives.

In the spring of the following year (1862) Schulze-Delitzsch moved his family from his old home in Delitzsch to Potsdam. The reasons for this change were that his new work as Counsel for the cooperatives was for the present at least primarily political. His main job was to secure for them the protection of a special statute. The place for such work was in the capital. In the second place Schulze-Delitzsch was absorbed in the new political contest and wanted to be near it. Conversely, his activity as a political leader was beginning to attract attention to his cooperative societies. The fame of Schulze-Delitzsch was growing very rapidly in these days when he was one of the few leaders who had the courage to carry on a really vigorous warfare against the policies of the autocracy.

[1] A. Bernstein, *op. cit.*, p. 119.

The next annual meeting of the cooperative societies was then held in the town of his adoption. The meeting of 1867 in Potsdam was the first occasion when the annual meeting was held any distance from the narrow circle of original societies around Delitzsch in central Germany. On this occasion some of the Counsel's friends made an effort to secure for him an increased salary. But there seemed danger that such a move would lead to misunderstandings and it was finally stopped by Schulze-Delitzsch himself. Finally the autumn of this year saw the arrival in Berlin of Otto von Bismarck in answer to the king's summons to come and "tame" parliament and popular government.

The year, 1863, then promised in advance to be a stormy one. It was even more exciting than was expected. Bismark failed to bribe, terrify or cajole the Progressives into granting the desired taxes. His attempt to terrify the press was similarly fruitless. The elections of October, 1863 resulted in an overwhelming victory for the Progressives. Schulze-Delitzsch as one of the Progressive leaders had now become a national figure. He and his societies were hated more than ever by the Conservatives and by the government. But the only result of their hard-fought victory was that Bismarck started on his policy of collecting taxes without legal authority.

In the growing partisanship of this year it took only the tactlessness of a friend to precipitate a violent personal quarrel between Schulze-Delitzsch and his coadjutor, Huber. The latter then withdrew his assistance from the Gild of the Future. And at the very instant when Schulze-Delitzsch thus lost this old friend, he also gained a new enemy. This was the time when that remarkable socialist leader, Lassalle, was starting on the series of moves by which he succeeded in deluding Bismarck into the belief that the proletariat of the great cities would be staunch Conservatives if only they

were given the right to vote. The Progressives were Bismark's great enemies, therefore from Lassalle's point of view it was desirable to attack Progressive leaders on the ground that their plans were not favorable to propertyless wage-earners. In addition to this Schulze-Delitzsch and his societies were much open to attack. Schulze-Delitzsch had in all sincerity advocated them as favorable to wage-earner and small-tradesman. Yet in practice it was found that usually it was only the small tradesman, the man who was in business for himself, who could use loans productively and furnish the proper security. The people's banks benefited laborers chiefly when they ceased to be laborers and became business men. Lassalle as a champion of the proletariat had a real case to make against the Progressive leader.

Lassalle's attack on Schulze-Delitzsch and his organizations apparently took the latter by surprise. But so good a war horse was never unready for a fight, and he replied vigorously. In fact the year 1863 is remarkable for the volume of his literary productivity. His book *The Working Classes and Cooperation* published five years before, reappeared in a second edition. Six lectures before a Berlin trade-union were published as a *Chapter in a German Workman's Catechism*. Among the other lectures which were published this year were "Labor", "Capital and its Relation to Labor", "Exchange, Value and Free Competition" and three lectures on "The Practical Means and Ways for Elevating the Laboring Classes". As to the net result of the debate, it may be said that it chiefly succeeded in defining the position of each. Lassalle was advocating cooperative factories established at once by state aid. Schulze-Delitzsch knew enough of the difficulties of cooperation to point out the visionary character of such a scheme at that time. And in this view history certainly

has supported his contention. Two years later, on Bismarck's request, the king endowed one such cooperative factory which was to be run by a society whose leader, Florian Paul, was one of Lassalle's own pupils. The chief result was that the king's money was lost. But Lassalle drove Schulze-Delitzsch into the position of defending the capitalist employer.

This controversy was further embittered the next year by the appearance of Lasselle's pamphlet entitled *Herr Bastiat Schulze von Delitzsch, der ökonomische Julian* (Berlin, 1864). The warfare was then cut short by the untimely death of Lassalle. But long before this happened Schulze-Delitzsch was a made man. Few men owe so much to their enemies as Schulze-Delitzsch does to Lassalle. Up until this time he had been handicapped by some of his earlier utterances. His remarks on the desirability of cooperative factories, his desire to have workshops in which the workers had a vote, expressed in his *Associationsbuch* in 1853 had caused him to be regarded with suspicion by the larger employers, just as he had for different reasons, been hated by the autocracy and by the reactionaries. Now he had become the spokesman of the Progressive Party and incidentally of the capitalist employer. His cooperative banks began to grow through the accession of a more substantial type of member.

It also happened just at this time that some of his political associates had started a movement to secure for Schulze-Delitzsch some substantial recognition of his services. After the recent collapse of the movement to secure for him a more adequate salary, it had seemed desirable that this should take the form of a public testimonial, for which popular subscriptions would be solicited. This had been agreed upon by his friends at a meeting held in one of the committee rooms of the House of Representatives in April,

1863. They then had sent out a letter which reminded its recipients of England's generous gift to Cobden and of the brilliant services Schulze-Delitzsch had rendered his country. Lassalle's attack came just in time. It made the movement popular not only among Schulze-Delitzsch's old friends but also among the new ones. Finally the gift was presented October 4, 1863. On the following day Schulze-Delitzsch published a letter in which he accepted the gift, but devoted it chiefly to others. From the amount given he accepted enough to purchase a house for himself in Potsdam. Considerable alterations had to be made in the gardens of the house chosen, but these improvements he paid for himself. The balance of the fund was turned over to a board of trustees to be administered as an endowment. The income from this endowment was to go to him and his family, but afterwards it was to be paid to those men whose public service best deserved special reward in the opinion of this board. This board of trustees was later incorporated in the Duchy of Saxe-Coburg and to it Schulze-Delitzsch turned over his gift amounting then to about 150,000 marks.

Two other achievements marked this busy year. Representative Schulze-Delitzsch secured the debate of his new law on cooperative societies. And Counsel Schulze-Delitzsch was able to capitalize the friendship and interest of some of his newer and wealthier supporters in a striking fashion. Out of a group of large employers he organized an "endorsement union" by means of which his people's banks were able to secure loans from the banking house of Leo Delbrück and Co. of Berlin.

But Schulze-Delitzsch's experience with charity and unpaid service was ever unlucky. In the very next year there was a financial panic and the banking house of Leo Delbrück & Co. promptly withdrew its support and left

the cooperatives very much in the lurch.[1] Luckily the year 1864 was less strenuous in other respects. It was marked, as might be expected, by a significant growth within the cooperative movement. While not so striking perhaps as the era when political forces caused the English building and loan associations to multiply over night, the situation was analogous and the growth extraordinary. The annual convention of the movement was held this year in Mainz. Here the new strength of the movement was recognized by the adoption of a new name and form of organization. There was no longer to be a mere Counsellorship; there was instead created the *Allgemeiner Verband der deutschen Genossenschaften* or the "Universal Federation of German Cooperative Societies". The older institutions, such as the Counsellorship and the subordinate leagues, were of course included in the new organization. Then the whole system was reduced to order by the adoption of a written constitution. This action (taken in 1864) makes the Universal Federation the oldest national organization of cooperative societies in existence.

January 2, 1865 saw the realization of another of Schulze-Delitzsch's dreams. The growing business of the cooperatives had now reached such a size that it seemed possible to organize a special central reserve bank of their own, and thus to replace the unsatisfactory connection of the previous year. The functions of this bank were to raise money in the general market to lend to the cooperatives, to accept as deposits from the cooperatives any temporary surplus funds they might have, and finally to assist in the transfer of money. Two thirds of the stock of this bank was owned by the various people's banks. The balance was owned by private individuals, chiefly Soergel and Parisius,

[1] M. Fassbender, *F. W. Raiffeisen*, p. 131.

the two men who were to manage it. The bank was officially known as "The German Cooperatives' Bank; Soergel, Parisius and Co.", but popularly it was called the Soergelbank.

1865 was also marked by another change in the *Gild of the Future* of which Schulze-Delitzsch was still the editor. It will be remembered that this had been made an independent monthly four years before. It was now transformed into a weekly newspaper. Still another evidence of the growing strength of the movement was shown in the increase of Schulze-Delitzsch's own income. As is customary with managers in Germany, his pay depended on the income of the organization he was managing. The great increase in the strength of the cooperative movement at this time had caused Schulze-Delitzsch's commissions to rise to 2500 Thalers ($1875). Apparently this seemed too large, so his salary was now fixed at 2000 Thalers ($1500). The percentage of their profits which cooperatives had to pay into the league, was then cut in half. Even with this change, the League's receipts were soon sufficient to cover the incidental expenses of the bureau and to create a surplus.[1] Of course a very considerable allowance must be made for the difference in the value of money, but even with this allowance it can scarcely be urged that the Universal Federation overpaid its brilliant Counsel. This niggardliness seems to be inevitable in a situation when salaries are paid by a more or less democratic body, in which there is a considerable majority of men with limited means. Many men are willing to pay another a little more than they are earning. Not so many are willing to pay very much more.

During this year Schulze-Delitzsch continued his struggle to get a special statute for his banks. In fact from the

[1] A. Bernstein, *op. cit.*, p. 156 *et seq.*

time of the organization of the secretariat this had been one of his chief aims, and since the organization of the Universal Federation it had certainly been the chief aim of the Federation's Counsel. But progress was slow. This year the Conservative party included in their platform a plank favoring the creation of cooperative factories by state aid and Bismarck secured, as has been stated, the royal endowment of one such project. To this policy of the Conservatives the Progressives replied with Schulze-Delitzsch as their spokesman. But naturally this did not immediately forward the cause of the people's banks. Bismarck was running the government. Parliament and the Progressives were decidedly out of power. It happened that the ministry was forming just at this time a commission to study the condition of the laboring classes. This commission was to study especially the problem of cooperation which had become acute through the debate of Schulze-Delitzsch and Lassalle. Several urged Bismarck to appoint Schulze-Delitzsch on this board, but he declined, condemning the people's banks "because he regarded them as Schulze-Delitzsch's political instruments in order to win an influence over tradesmen and wage-earners and thus to strengthen the Progressive party against the government".[1]

On January 1, 1866 Schulze-Delitzsch's periodical underwent its final transformation, changing its title from the *Gild of the Future* to *Blätter für Genossenschaftswesen* or *Cooperative Journal*, the title under which it has now appeared each week for about half a century. This year, like the preceding, was again devoted largely to agitation designed to secure the passage of a statute giving legal protection to the cooperative form of organization. By this time the cooperative institutions of Germany were

[1] Letter of Bismarck's, quoted by Finck, *op. cit.*, p. 86.

attracting attention even beyond the confines of the Fatherland. In the previous year M. Perdonnet, director of the French Imperial Polytechnic Institute, had expressed a wish that Schulze-Delitzsch might be present at a celebration to be held by that institution; but this invitation Schulze-Delitzsch had been compelled to decline. Now a Chamber of Commerce in Riga tried to secure a lecture there on the subject of cooperation, but characteristically the Russian government prohibited the meeting.[1] In the mean time Schulze-Delitzsch's fight with Bismarck went merrily on, and the year was marked by another hostile letter from the latter to a correspondent in which he characterized the Schulze-Delitzsch cooperatives as "incapable of surviving".[2] Finally progress in the internal affairs of Prussia was blocked for this year at least by the popular interest in the Seven Years War with Austria and the triumph, signalized by the treaty of Prague, (August 23, 1866).

But 1867 was a year of reconciliation in Prussian politics. Bismarck felt that his military triumph had given him and his policy of "blood and iron" so secure a position with the Prussian people that he could afford to be generous. Perhaps it would be more truthful to say that he thought that with his present prestige, he could, by being generous and conciliatory at this time, win the popular support he needed for his next moves. At any rate, in organizing the North German Confederation, he provided for popular participation in government and universal manhood suffrage. He restored the Prussian constitution and asked for a bill of indemnity excusing him for his lawless conduct during the preceding four years. This was granted him with enthusiasm.

[1] A. Bernstein, *op. cit.*, p. 171.

[2] Letter of Bismarck, *op. cit.*

During this love-feast of mutual concessions, Schulze-Delitzsch finally got his special cooperative statute pushed through parliament and signed (March 27, 1867). This law was opposed, as we shall see, by a rival group of cooperative organizations, and it was fought bitterly by the Conservatives. The Conservatives' position in this matter was perhaps best stated by their leaders, von Kleist-Retzow, who said, " The cooperatives are an organization of a state within a state under a leader who stands out as a foe to the government of that state as well as to the church ".[1]

The Conservatives tried hard to subject the cooperatives to special government supervision, but with Bismark's virtual desertion of their cause, they failed. Schulze-Delitzsch's bill was passed with only insignificant amendments. This achievement was perhaps the greatest single triumph of Schulze-Delitzsch's career. To a large extent the bill and the agitation which made its passage inevitable were his personal achievements. His also had been the invention of the institution which was now thus formally vested with legal individuality.

In the month following this achievement Schulze-Delitzsch was invited to attend an Economic Conference in Paris, as the representative of the German cooperative movement. But while he was actually on the journey thither, he heard that the French government had prohibited the meeting. Then with the approval of his cooperatives, he issued a public protest, in the course of which he said—" Herein lay the great significance of the Cooperative Congress, to build up just such an international understanding. It would have been a peace conference. . . . The necessary outcome from it would have been a general energetic protest against war ". This letter promptly got him into a position which was em-

[1] Speech of von Kleist-Retzow quoted by Finck, *op. cit.*, p. 87.

barrassing, to say the least. In July of this very year he was invited as a representative of the Progressive and Liberal Parties in Germany to be present at a peace conference held in Geneva whose purpose it was to help dispel the gathering of war-clouds between France and Prussia. But Schulze-Delitzsch was now reconciled to the policy of heavy armament "on account of the peculiar position of our fatherland".[1] To attend a conference in Paris and address a peace resolution to the French government was one thing. To attend an international conference in Geneva at which the Prussian policy of preparedness was to be criticized was a horse of a very different color. Schulze-Delitzsch declined.

One other useful institution within the cooperative family was born this year. The *Soergelbank* succeeded in creating the *Giroverband,* a clearing house which much reduced the cost of collecting the claims which the various people's banks held upon each other.[2]

The decade following these achievements has frequently been called the "flowering season" of the Schulze-Delitzsch movement.[3] The name is misleading in its implication that all that followed this period was a frost. But the name does call attention to two facts:—the movement was growing rapidly and the Schulze-Delitzsch societies held a virtual monopoly of the cooperative field. So impressive was the growth that plans were made to establish a separate branch of the *Soergelbank* at Frankfort. But this project had to be delayed for a while because of lack of capital. Thus the

[1] *Cf.* letters of Schulze-Delitzsch quoted in Bernstein, *op. cit.*, p. 174 *et seq.*

W. Wygodzinski, *Das Genossenschaftswesen in Deutschland* (Leipzig, 1911), p. 171.

[3] *Cf.* R. Finck, *op. cit.* and Zeidler, *Die Geschichte des deutschen Genossenschaftswesen der Neuzeit* (Leipzig, 1893).

sole outstanding achievement of the next year was recorded in the adoption of the Prussian Cooperative law by the newly formed North German Confederation with, however, the addition of an amendment which was proposed by Schulze-Delitzsch himself (July 4, 1868).

The legal structure of his organizations now being complete, the Counsel's next task was to explain it to his societies and their members. For this purpose he prepared and published his little book on the *Legal Position of Commercial and Business Cooperative Societies,* (Berlin, 1869).[1] This book was the most scientific of his writings and in connection with the great work of which it was the formal expression, it was to bring him in the course of years a very considerable amount of honor. Even within the year of its publication there came to him the *Grand Diplôme d'Honneur,* a prize of the first rank from Amsterdam, and a personal letter from Louis Phillippe, Count of Paris and pretender to the throne of France. In the years that followed, he was elected an honorary member of the English Cobden-Club, of the *Accadèmia fisco-statistica* of Milan, of the *Società d'Economia polìtica* of Lombardy, of the *Accadèmia de'Lincèi* in Rome and of various other organizations.

The year following this (1870) was the year of the Franco-Prussian war. The regular annual meeting of the Universal Federation of Cooperative Societies was omitted for the only time in the nineteenth century. Of the various events which affected Schulze-Delitzsch personally, perhaps the most significant was his refusal to attend a new peace conference held in Geneva. The letters in which he ex-

[1] H. Schulze-Delitzsch, *Die Gesetzgebung über die privatrechtliche Stellung der Erwerbs und Wirthschafts Genossenschaften mit besonderer Rücksicht auf die Haftpflicht bei kommerziellen Gesellschaften* (Berlin, Verlag von Herbig, 1869).

plained his reasons for so doing were published by their recipient, Professor Vigano, in the *Gazetta di Milano*. These letters were then reprinted in the New York *Democrat* and are said to have had some little effect in arousing sympathy for his country's cause, not only in Italy, but even in the United States.

January 28, 1871 saw the surrender of Paris to the German armies. Officially the war was not ended until the treaty of Frankfort was signed on May 10, 1871. But in spite of this, and the fact that the great indemnity was not paid until still later, nevertheless it is probably true that the great period of business revival and prosperity in Germany is best dated from this surrender. So striking was the business "boom" of the next few years, that this period is still spoken of by Germans as the *Gründerzeit* or "Era of Promotions". It was an era when prices were rising rapidly, when capital was abundant and easy to secure. For the Schulze-Delitzsch movement this meant that it was now possible for them to raise the capital necessary to start the Frankfort branch of the *Soergelbank*. Thus another dream was realized. This branch was furthermore fortunate in securing able management. But capital was now too easy to secure and for the first time in their history the monopoly of the Schulze-Delitzsch institutions in the cooperative field was seriously threatened by the creation of a rival to the *Soergelbank*. This rival was the *Zentralbank für Genossenschaften* or "Reserve Bank for Cooperatives" in Berlin.[1]

But Schulze-Delitzsch's marvellous combination of energy, public spirit and organizing ability was not yet entirely absorbed by these various movements. In the spring of this year a Berlin schoolmaster and a Biebrich

[1] R. Finck, *op. cit.*, pp. 76 and 77.

manufacturer had started to organize a "Company for the Extension of Popular Education". They succeeded in interesting a number of others and finally an assembly was held (June 14, 1871) for determining the constitution. Schulze-Delitzsch was invited to become president of this gathering. Later he undertook the task of organizing throughout Germany local associations and branches of this parent body. In this he had able assistance from two other men, but the task was performed under his leadership. This institution has now led a useful existence for nearly half a century. For our purposes it is interesting as the last of the great organizations which owed their existence to his energy and public spirit. It must be remembered that even when he undertook this task he was already well along in years and had been through enough bitter fights more than to fill many lifetimes. Nevertheless he remained president of this organization until the day of his death.[1]

During this year the cooperative movement suffered one reverse. In Bavaria these banks had been permitted to adopt limited liability. The extension of the authority of the empire crushed out this new form in 1872 and Schulze approved of this compulsion of unlimited liability.

With the continued ease in securing capital, another rival to Schulze-Delitzsch's *Soergelbank* was started in the following year. This institution, however, was destined to outlive Schulze-Delitzsch himself. It was the *Rheinisch-Westfälische Genossenschaftsbank* in Cologne which lasted from 1872 until 1889.

The year 1873 was a year of contrasted pleasures and pain. It brought him the honor which probably he valued most of all those which were heaped upon him; namely, the honorary degree of doctor of laws from the University of

[1] A. Bernstein, *op. cit.*, p. 183 and Wolff, "*People's Banks*," p. 76.

Heidelberg. This was conferred primarily in recognition of his creation of a new legal form and his enrichment of jurisprudence thereby. But 1873 brought also the great crisis and the beginning of hard times. A whole row of people's banks went down with the onset of the storm. The disappointment must have been particularly bitter because the series of disasters which started with this crisis and lasted right through the hard times of the next few years, formed the first real reverse suffered by the Schulze-Delitzsch movement.

But even in the midst of this disappointment there were certain gloomy consolations. Schulze-Delitzsch's pet, the *Soergelbank,* was hard hit and was compelled to reorganize with a small capital; but the *Soergelbank's* rival in Berlin, the *Zentralbank für Genossenchaften,* was wiped out entirely.[1] In the collapse of the various people's banks, Schulze-Delitzsch's pet idea, unlimited liability, caused terrible suffering;[2] but the most numerous losses occurred among those banks which were, contrary to his advice, making loans to non-members.[3] The heaviest losses occurred among the members of Schulze-Delitzsch's *Allgemeiner Verband,* but at least he had the comfort that the largest number of bankruptcies occurred outside it. Finally Schulze-Delitzsch had in his New Year's article of 1872 warned his banks to expect a great crisis and had in the months following given directions as to methods by which his banks could keep themselves in position to meet such a storm.[4] But such comfort must have been small. The cooperative structure was shaken to its foundations.

[1] R. Finck, *op. cit.,* p. 75.

[2] R. Finck, *op. cit.,* p. 87.

[3] R. Finck, *op. cit.,* p. 27.

[4] R. Finck, *op. cit.,* p. 97, and *cf.* Wolff, "*People's Banks,*" p. 76.

Such disasters as the suspension of the people's banks in Dresden, Leubus, Düsseldorf, etc. destroyed popular confidence in the cooperative movement to such an extent that in some districts it was not only impossible to start a new cooperative society, but even in surrounding cities the people's banks already in existence adopted the legal form of joint-stock corporations in order to avoid the odium of the cooperative name. Before the end of the year it was evident that the Schulze-Delitzsch cooperative statute needed amendment, and a new struggle with the Conservative party over the form of this amendment had started. In Austria during this very year a statute was passed which gave people's banks the privilege of adopting limited liability.

The year 1874 was marked by at least one pleasant event. The French economist, Benjamin Rampal, had translated a large portion of Schulze-Delitzsch's works, some of them literally, some of them with changes designed to make them appeal to French readers. These translations now appeared in two volumes and were greeted with wide-spread approval,[1] which is all the more interesting in view of the recency of the Franco-German war. For the rest, the year was one of anxiety. His people's banks were in distress.

1875 is perhaps the saddest of the years in this period. It occurred right in the middle of the period of business depression and was marked by the disaster to the Düsseldorf bank, whose bankruptcy has been called the greatest misfortune that ever befell the cooperative movement.[2] This year saw also the end of Schulze-Delitzsch's long service in the Prussian House of Representatives of which he had been a member continuously for fifteen years. The important law-making body was no longer the Prussian parliament

[1] A. Bernstein, *op. cit.*, p. 181.

[2] *Cf.* Finck, *op. cit.* and Zeidler, *Die Geschichte des deutschen Genossenschaftswesens der Neuzeit* (Leipzig, 1893).

but the German Imperial Reichstag, in which Schulze-Delitzsch was now to serve for several years more.[1]

On January 19, 1876 in the form of a question to the ministry in the German Reichstag, Schulze-Delitzsch denounced as non-cooperative, two societies which had been admitted to registration in Neuwied.[2] These two societies had no share capital and their officers were not members of the society. These two differences formed the basis of his denunciation. The reason for his denunciation of them was perhaps different. From the time when the ideas of Schulze-Delitzsch had begun to spread at all, there had been societies founded on his general plan which had refused to recognize his leadership, had remained outside the Universal Federation, and had not copied the details of the Schulze-Delitzsch scheme of administration. Furthermore, there had now existed for some years a growing—and a rapidly growing—group, led by a rival whose plans differed from those of Schulze-Delitzsch in some respects. These cooperatives, the Raiffeisen banks, now appear for the first time in the history of the Schulze-Delitzsch movement as serious factors. This is interesting because when we come to examine the Raiffeisen movement, we shall find that Schulze-Delitzsch and his banks had for a long time been a powerful factor in their history. But by 1876 the Raiffeisen banks had grown large enough to disturb the balance of power. Schulze-Delitzsch's attack on his rival can scarcely be viewed as anything but a mistake. It did little good, and it rendered bitter the differences which had long existed between the two leaders and the two types of banks. But the attack may perhaps be understood, even if not commended. Schulze-Delitzsch was the inventor of an institu-

[1] A. Bernstein, *op. cit.*, p. 183.

[2] R. Finck, *op. cit.*, p. 95.

tion which was now falling into disfavor because of repeated bankruptcies. Here were societies organized under his own statute, which were adopting policies that seemed to him to make them less safe. To him they seemed to be increasing the possibility of bankruptcies within the cooperative movement. Discredit, especially at this time, was a serious matter. And Schulze-Delitzsch, as Counsel of the Universal Federation, was their legal and political representative. The attack was probably as inevitable as it was successful.

In this year also he introduced into the Reichstag his first bill to amend the Cooperative Law and to secure the reforms, which seemed to be indicated as necessary by the experience gained in the current business depression. This bill was referred to a committee. But the committee never reported, as the time and interest of the Reichstag were absorbed by the bill to establish the federal judiciary.[1] One personal honor came to him at this time and must have been much appreciated, in part because of the time at which it came. The Brussels Exposition awarded to him a gold medal, as first prize for his services to the cooperative movement.

In 1877 Schulze-Delitzsch presented his second bill to reform the people's banks. But this he later withdrew because the government promised to take up the matter of amending the Cooperative Law as soon as the bill to reform the joint stock corporations had been enacted. No further progress with this project was made for some time, although in the year following the Reichstag asked the chancellor to present a supplementary law for this purpose as soon as possible.

But this next year was marked by another of his ever

[1] R. Finck, *op. cit.*, p. 102.

recurrent fights. Two attempts had been made on the life of the king by people who were alleged to be Socialists. The excitement over these events gave Bismarck an opportunity to repress a party, whose growth was endangering his power and was causing him alarm. And to this repressive legislation the Conservatives now tried to subject not only the people's banks, but also registered companies, unions and all organizations whose purpose was mutual aid. Such organizations were not to be prohibited, but they were to be subject to special legal supervision. This project was recommended by the committee of the Bundesrath to whom the Socialist laws had been referred. But Schulze-Delitzsch was successful in having the project thrown out by the Bundesrath in their meeting of July 4, 1868.[1]

Finally this summer was notable because in it Schulze-Delitzsch completed his seventieth year. He spent the earlier part of it as usual in attending the annual meetings of the various subordinate leagues. But the heat was too much for him. He became sick. None the less he tried to attend the annual meeting of the Universal Federation which was held in Eisenach August 22-25, but there suffered a relapse and was compelled to give up the attempt and return home. Thus his actual birthday (August 29) was celebrated very quietly although from many places resolutions of congratulation and respect were sent to him. With his ever remarkable vigor, he soon recovered and was able to hold a somewhat belated dirthday dinner.[2]

The last few years of his life however were much less active than the previous seventy. His health remained far from good and he was compelled to husband his strength. However, his seventy-first year saw him still active enough to secure from the Bundesrath a repetition of the Reich-

[1] R. Finck, *op. cit.*, p. 88.

[2] A. Bernstein, *op. cit.*, p. 185.

stag's request to the chancellor for the government's bill to amend the cooperative law. His seventy-second year was largely spent in waiting for the enactment of the Joint Stock Company law and in waiting for Bismarck's reply to these two requests.

In the following year (1881) he again made his compaign for membership in the Reichstag in spite of his growing weakness. And on April 28, 1881 he presented his last and most comprehensive bill for amending the Cooperative Law. This bill, with the opposing bill presented by the Conservatives, and another rival project presented by a representative from Saxony, was referred to a committee, where again it was allowed to rust.[1]

At the convention of the Universal Federation in the following year (1882) Schulze-Delitzsch presented his last report as Counsel. This report showed that there were 3,481 cooperative societies then in existence in Germany. Furthermore there were by this time similar organizations, modeled after his plan, in France, Italy and other countries.[2] It was a bit pathetic therefore that in this last report he was compelled also to chronicle the bankruptcy of the bank at Stuttgart, especially since this bankruptcy was the last of the great series of disasters precipitated by the panic of 1873 and the consequent business depression.

But 1882 brought one more great disappointment. Under the pressure of renewed questioning from the Reichstag chamber, the ministry admitted (December 8, 1882) that it was not planning to amend the existing Cooperative Law at all, but was planning instead to bring in a bill for an entirely new cooperative law.

Furthermore Bismarck was now making common cause

[1] R. Finck, *op. cit.*, p. 103.

[2] Dr. Peter Schmidt in *Handwörterbuch der Staatswissenschaften* (Jena, 1911).

with the Conservatives and the Centrist party. In this new line-up of the political forces there had been an end to the power of the Progressive and National Liberal elements. Thus Schulze-Delitzsch could not with any degree of certainty count upon being even considered in the preparation of this new statute.

Just over twenty years before this Schulze-Delitzsch had moved his family from Delitzsch to Potsdam and had from that point started his fight for the enactment of this Cooperative Law. It looked now as if his legal achievements of the past twenty years were to be wiped out. So far as the purely legal aspects of his work were concerned, he was now not far from the place where he had been a generation before.

Only four months more of health were granted to the old man, and during this time he was compelled to watch one of his provincial leagues making preparations to desert his Universal Federation and to organize a new rival federation of its own. But during this time he managed to write one more book, a tiny volume entitled *Material for Revising the Cooperative Law*.[1] In this he summarized concisely his position on the various points involved. To a considerable extent this book determined the course which the new statute would take when it was finally passed, but its author was spared the bitterness of that political combat. On April 29, 1883, his long and useful life was brought to a close. His funeral, four days later, brought forth a tremendous popular demonstration, which included people of all kinds and descriptions. His coffin was followed to the grave by some ten thousand of his admirers,[2] —a fitting close to a life singularly rich in service to his fellow man.

[1] "*Material zür Revision des Genossenschaftsgesetzes, nach den neuesten Stande der Frage geordnet.*"

[2] A. Bernstein, *op. cit.*, p. 197.

CHAPTER VI

The Schulze-Delitzsch Movement and Counsel Schenck

The history of the Schulze-Delitzsch movement may be divided into three main periods. The first of these would cover the time up to the death of Schulze-Delitzsch. The second would coincide roughly with the administration of Counsel Schenck, (1883-1895) and the third would cover the administration of Counsel Cruger from 1895 to the present.

Each of these periods may be subdivided of course. The leadership of Schulze-Delitzsch for example might be separated into four parts, 1852-1859, 1859-1867, 1867-1873 and 1873-1883. But first the reader should take warning that this division of the history of a whole movement according to the term of office of one officer in one organization within that movement is highly artificial. It overemphasizes the personal factors in the movement's history. It overemphasizes the personal achievements of these three men, but it is convenient because the banks have passed through sharply contrasting stages which correspond roughly with the three terms of office. These stages however merged into each other gradually and to mark them off sharply some rather artificial line must be drawn. Some event must be chosen during the period of transition and the next stage dated from that event. The political position of the Schulze-Delitzsch movement before the panic of 1873 was very different from its position when the

Reichstag passed the law of 1889. This change occurred slowly during the business depression of the seventies and rapidly after 1880. Clearly the change should be dated after 1880 and before 1889. This period from 1880 to 1889 was marked by two events of prime importance; the organization of a rival federation and the death of Schulze-Delitzsch. Both events occurred in 1883. Therefore that year is chosen as a dividing point, and the death of Schulze-Delitzsch is chosen, not because it is necessarily the more significant, but because it is more convenient.

The fact that the movement has made its leaders, rather than been made by them, needs to be emphasized because all three leaders of the Universal Federation have been men of distinct ability. Each has done his part well. And it is easy to confuse the able mouthpiece of a powerful movement with the movement itself. Furthermore, this personal prominence of the mouthpiece, or Counsel, is, we shall find, enormously re-enforced by the internal structure of the Universal Federation. Thus it is not always easy to distinguish to what extent the Counsel is really an independent leader and to what extent he may lead only so long as he leads in the direction the movement is already choosing for itself. It is safe to say that the latter has been the case most of the time for many decades back.

There has been one exception to this statement that the Counsel can lead only so long as he leads where he is driven. That exception was to be found in the earlier history of the movement. Before 1873 and especially before 1859, Schulze-Delitzsch not only led the cooperative banking movement; he dominated it. Never was his influence over the banks greater than in the earliest years of his activity when he had no official right to exercise it. In the early fifties Schulze-Delitzsch was a practically unknown young radical, a parlor Bolshevik, who was more or less discredited

even though he had been acquitted on the charge of treason and inciting to riot. But the people's banks were few, small and struggling. His legal knowledge and advice were a godsend, his influence tremendous—within its small field. On the other hand by 1865 Schulze-Delitzsch had become a famous man. But within the cooperative movement, even before the end of the fifties, new leaders had appeared and some of the banks were prospering so that they needed to be really dependent on no one but themselves. In a few years more they might have slipped out from Schulze-Delitzsch's wing completely. Many of them had already done so. It will be remembered that relatively few came into his league, when he did organize it.

It is true that the chief reason for this staying out was probably the expense of membership and of sending delegates. But in part it was the appearance of other leaders and the growing self-sufficiency of the societies.

Schulze-Delitzsch then probably seized upon the psychological moment for the organization of the secretariat in 1859. In addition to giving him an income, it brought the officers of the larger and more successful unions into joint control with him over the affairs of the movement. It thus gave them a more personal interest in the movement as a whole, and secured their cooperation for the affairs of the movement as a whole, in a way that probably would not otherwise have been possible. This joint control has characterized the movement since its start. And since its start the joint control has actually, whatever the form, been exercised by the Counsel and the managers of the larger and more successful societies or subordinate leagues. The Universal Federation has the structure of a democracy, but the movement has never been one of pure democracy. Rather it has been a democracy managed by an aristocracy of the most efficient.

The Secretariat and later the Universal Federation were workable in part because these leaders of the second grade were recognized. But it was drawn together not merely because of the stated desire to discuss their experience and common purposes, but because there was already a definite common need and purpose. The banks were determined to secure a special statute which would legalize the cooperative form of business organization. For this purpose they needed a skilled lobbyist. And as the lobbyist they picked Schulze-Delitzsch; then having elected him they supported him in many of his political efforts.

In the previous chapter this changing relation between Schulze-Delitzsch and his banks was not mentioned. But it is worth while to remember that there was this other side. The movement is by no means a one-man achievement. Up to perhaps 1873 the initiative came largely from the leader. But after that date it seems more in accordance with the facts to say that the Counsel presided over a movement which many led. Never since the early seventies has the movement been dominated by any one individual. It has outgrown one-man control.

The events in the first period of the movement's history, 1852-1883, have been already presented in connection with Schulze-Delitzsch's life. They need only to be summarized here. The thirty-one years may be divided into four shorter periods. The first of these (1852-1859) was that which preceded formal organization. The second (1859-1867) was a time when all other efforts were subordinated to the task of getting a special protective statute.

This statute of 1867 with its amendment in 1868 form a turning point in the movement's history. Up until this time any member might be sued for the debts of the bank. Any borrower could be compelled by depositors to repay, not only his own debt, but all debts which the bank had con-

tracted. Naturally creditors would at once pick out the richer members and sue them if the bank got into difficulties. Knowing this, men with property for the most part refused to join. The statute of 1867 provided that creditors of a bankrupt society might sue individual members only after the bank's own property had proved to be insufficient. The amendment of 1868 left the creditors' rights unchanged; but provided an administrative procedure by which the deficit of a defunct bank was divided evenly and collected by the receiver in bankruptcy. The superior advantage to the creditor in thus being spared the expense of a law suit, if he so desired, practically stopped all suits against individual members. To individual members this meant not only freedom from the annoyance and expense of law-suits in case of bankruptcy, but also freedom from the danger of being compelled individually to pay off the bank's entire debt and then taking their chances on being able to collect from the other members. A member now was liable only for his share of the deficit plus a fair proportion of the additional payments made necessary by the inability of some members to pay their full share.[1]

Furthermore, up until this time, members of a cooperative society who thought the society's affairs were being mismanaged, had no good way of escaping the liabilities which bankruptcy would involve. They might resign; but this, unfortunately, would not terminate their connection with the society's debts. In at least one German state this liability endured for thirty years after the member's resignation. Now it was provided that a member who resigned, should be liable only if bankruptcy occurred before his resignation. Thus if a man now thought that his bank was badly managed he could get out. For these reasons men with pro-

[1] *Cf.* W. Wygodzinski, *op. cit.*, p. 32.

perty no longer feared to join. Lassalle's attacks had made the movement popular with them. Thus the people's bank now ceased to be an institution primarily for the propertyless and poor. It began to include all classes, excepting only the land-holding aristocracy and the very wealthiest business men.

The period from 1867 to 1873 was the time when the movement was thus changing its character most rapidly, although the change had started some years earlier. During this time the general business revival had also brought increasing prosperity to those who were already members, the master artisans and the petty tradesman. Thus by 1873 the whole movement had a distinctly middle-class tone and viewpoint. These years from 1867 to 1873, it will be remembered, were called by Finck the "flowering season" of the Schulze-Delitzsch movement. Certainly they were years of of extraordinary growth and prosperity. Almost the only untoward event during this period was the withdrawal of the Austrian people's banks from the ranks of the Universal Federation. These had joined at the first meeting held in Weimar and had remained loyal members of the federation even through the Seven Weeks War. But the formation of the German Empire changed the situation. Up until that time the Universal Federation had included delegates from banks in many independent sovereign states. After 1871 all of these but Austria were included within the German Empire. Thus in 1872 the Austrian societies organized a separate federation under their own leader, Ziller.[1] One result of the formation of this new federation was the Austrian Cooperative Law of 1873. This statute furthermore made a distinct contribution to the movement. Permission was given to form cooperative societies with limited liability.

[1] Herrick and Ingalls, *Rural Credits*, p. 366.

The final years (1873-1883) of Schulze-Delitzsch's services as Counsel were characterized by continued growth among the people's banks, but also by the panic of 1873, by hard times and by bankruptcies. They were, furthermore, marked by the rapid growth of a rival cooperative movement and by the preliminary stages of an apparently losing fight over the amendment of the cooperative law.

Such was the situation when Schulze-Delitzsch died and Schenck was appointed Counsel in his stead. The latter took up a discouraging burden. He followed too brilliant a predecessor into a fight which even that brilliant leader was apparently losing. He could not command the same united support within his own federation, and outside the federation there was this rapidly growing rival cooperative movement endorsed by the Conservatives. The Progressive party, which had rendered such service to Schulze-Delitzsch, was dying; and Bismarck was again cooperating with Conservative and Centrist parties, both of which were hostile to the general policies of *laissez-faire* for which the members of the people's banks had stood.[1]

Like his predecessor in office, Schenck secured election to the Reichstag. In 1884 the Reichstag at last completed its work on the law governing joint-stock corporations. It was then ready to take up the statute regulating cooperative societies. Three years later a special committee of eighteen was appointed. Among those appointed to this committee were Counsel Schenck and four of the managers of subordinate leagues in the Universal Federation. This committee prepared its report and submitted a bill. Instead of acting upon it at once, the Bundesrat published the report. A year of acrimonious criticism followed. Finally the statute of May 1, 1889 was passed, whose features are so important that they require some special consideration.

[1] R. Finck, *op. cit.*, p. 104.

The introduction of limited liability was probably the issue about which the bitterest battle raged. Switzerland, Belgium and Austria already permitted the cooperative banks subject to their law to limit their members' liability if they so chose. In Germany the disastrous effects of unlimited liability during the hard times of the middle seventies gave the Conservatives and many of Schulze-Delitzsch's own associates reason for demanding a change. But Schulze-Delitzsch had at first opposed the introduction of this new form for three reasons. In the first place he felt that creditors should not be asked to share the risks of the enterprise. To this his opponents replied that so long as depositors were receiving interest at rates higher than were offered by public savings banks, this extra interest could fairly be regarded as payment for the assumption of some risk. In the second place Schulze-Delitzsch felt that the banks would have better credit if their members' liability were unlimited. The movement had grown great under a regime of unlimited liability. Now he felt it would be unwise to change. To this his critics replied that the early cooperative societies had indeed needed unlimited liability. Without it they could not have borrowed at all. But that condition no longer prevailed. The capital they had accumulated during the last generation now satisfied creditors. The repeated conversions of cooperatives into joint stock corporations were cited to prove this contention. Furthermore, they pointed out that there were some cooperative societies in existence, such as the cooperative stores, which never had needed to have their credit propped up by the institution of unlimited liability for members. Finally, Schulze-Delitzsch thought that the institution of limited liability would tend to lessen the interest of members in the fate of a bank. They would do less, for example, to prevent a threatened bankruptcy. This decline in interest has in fact

occurred, but it probably was inevitable in any case. It has probably been chiefly due, Finck thinks, to the growth in the size of banks and the consequent decline of the influence of any one member upon the bank's affairs.[1]

In the conventions of 1871 and 1879 the Universal Federation had voted for the legal exclusion of limited liability. But the growth of a very determined minority which threatened to undermine his authority, compelled Schulze-Delitzsch in the winter of 1879-1880 to change his position. In the convention which occurred in the summer of 1880 the Universal Federation still insisted on unlimited liability in spite of the counsel's new views. But in 1881 although it still affirmed its belief in unlimited liability, it voted to permit its Counsel to agree to a compromise which included the granting of permission to societies to organize with limited liability if they so chose. The story of this change illustrates well the case where a determined minority enforced its will upon the Federation's Counsel as well as upon a less interested and upon a less determined majority. The minority in this case was composed chiefly of the cooperative stores which of course needed to borrow but little, and some of the wealthier cooperative banks whose capital was now such that they no longer needed to offer creditors the additional security of unlimited liability.

The statute of 1889 therefore permitted the organization of societies with limited liability. This form immediately was adopted by some of the cooperatives and its use has grown steadily since that time. By 1906 there were in Germany 7,712 cooperative societies of all types with limited liabilty. These contained 1,745,000 members. At the same time there were 16,784 cooperative societies with unlimited liability containing 1,887,500.[2] Thus within

[1] R. Finck, *op. cit.*, p. 108.

[2] R. Finck, *op. cit.*, p. 106.

seventeen years of its first authorization about a third of all the cooperative societies and about one half of all the members had adopted the new form. If our discussion be limited to the banks, however, it will be found that the percentage with unlimited liability is still much the larger.[1]

Societies with limited liability naturally are far more in need of capital than are organizations of the older type. Therefore the law now permitted a member to purchase more than one share. The maximum number of shares which can be held by any one member is to be limited by the constitution of each society. But, thus far at least, this limitation has been a matter chiefly of academic interest. In most cases it has not been easy to induce members to buy extra shares. A member has only one vote regardless of his shareholdings. A member's line of credit with the bank is not limited by his shareholdings, but by his estimated ability to pay. The only inducements to purchase additional shares are the additional dividends. But with each share which he purchases the member must assume a proportionally increased liability. There is thus a good reason for not purchasing too many shares.

The amount of additional liability which a member must assume with each additional share purchased is regulated by the constitution of the particular society, subject only to the general legal restriction that the additional liability may not be less than the amount of the member's share. The purpose of this restriction is to compel the society to remain a true cooperative. If the liability were trifling, the temptation to run the society as a practical business proposition and for immediate profits, would be greater. This practical money-making attitude is not by any means eliminated by this legal rule, but it is thus held somewhat in check.

[1] H. W. Wolff, *People's Banks* (London, 1919), p. 161.

The second innovation in the statute of 1889 was the introduction of a third cooperative type,—the society with unlimited contributory liability. This differed from the ordinary society with unlimited liability only in the fact that in this form creditors have no right to sue individual members for a bank's debts, such suits may be instituted by the receiver only, and then only for the amount needed from that member to make up his share of the deficit, after allowance has been made for those who cannot pay. On paper this sounds like an important distinction. In fact it has been unimportant. The statue of 1889 provided that creditors of societies with unlimited liability could sue individual members only after the lapse of three months from the time when the receiver made this assessment. This, coupled with the inevitable expense of suing, has caused most creditors to just wait until the receiver had collected his assessment and was ready to pay all alike. The chief protection of members is from spite suits—and these unfortunately can be started on other grounds as well. Actually the extra protection afforded members is small. On the other hand the unusual word appearing in the title of a society of the unlimited contributory liability type, is probably something of a handicap in securing deposits. Few societies have adopted this form.

The third change introduced by the statute of 1889 was the legal requirement that each bank must have a share capital and that members must also be stock-holders.[1] This policy of the Schulze-Delitzsch banks had been bitterly opposed by some other cooperative leaders.

The fourth change in the new statute was stated in the following words:

Cooperative societies where the purpose of the enterprise is

[1] W. Wygodzinski, *op. cit.*, p. 63 *et seq.*

the granting of loans, may not extend their business, in so far as this consists of the granting of loans, in accordance with that purpose, to persons other than members.

Grants of loans, which are only for the purpose of investing surplus cash, do not fall under this prohibition.

The Erfurt convention of 1888 opposed this and Counsel Schenck characterized it as "unjustified and purposeless". But the only change which opponents of the provision secured was in the penalty imposed. Violations of this provision are not punished by the dissolution of the society, but by penalties imposed upon the officers personally. The effect of the adoption of this provision was that some of the cooperative societies changed into joint stock corporations in order to avoid losing profitable business with non-members. Some of these small corporations have survived and have continued to serve well the small borrowers of their localities.[1]

The fifth change lay in the series of minor amendments whose purpose was to make the date of entrance and departure from cooperative societies more definite. The board of officers was now ordered to attend to the registration of members. Legal membership dates from the close of the following business year. Legal withdrawals date from the close of the first business year whose close comes at least three months after the official registration.[2]

Furthermore the general assembly was now required to set a limit to the total liabilities which the officers might assume on behalf of the society and also a limit to the size of the total loans to any one member.

The statute also provided that the board of officers must consist of at least two members and that all of its actions

[1] R. Finck, *op. cit.*, p. 121.

[2] R. Finck, *op. cit.*, p. 123 *et seq.*

must be vouched for by the signature of at least two members. The general assembly was given the right to limit the authority of this board through their by-laws, but such limitations were not to affect the validity of contracts undertaken with non-members.

The eighth innovation lay in the legal requirement that the general assembly elect a board of supervisors as well as a board of officers. The statute of 1867 had compelled the people's banks to entrust a very large amount of authority to the bank's officers, but it had made no adequate provision for supervising them. The preceding provision with regard to the duties of the general assembly was for this purpose. It merely added the authority of law to a custom already common. So in this case the law-makers found that many cooperatives were beginning to appoint boards of supervisors, whose special duty it was to watch over the manner in which the officers conducted the bank's affairs. The statute now extended this practice and made it compulsory for all.

The ninth change made in the law also was designed to hold the officers to account. This change lay in the introduction of a compulsory legal audit. The United States with its earlier use of bank credit had introduced the principle of compulsory examination more than quarter of a century earlier. But in Germany the idea precipitated a great fight. Audit by regular accountants was already common in the Schulze-Delitzsch people's banks. But the idea of legal compulsion aroused bitter opposition. Schulze-Delitzsch had opposed it; Schenk opposed it: the Universal Federation opposed it. The convention at Erfurt (1888) declared against bank examiners and all other forms of government interference. Representatives of the people's banks declared that if the government was going to appoint examiners, it ought to assume the risks and losses which

might result from faulty examination. The storm of protest did have one result. The original proposal was modified in that societies might avoid the government audit by providing for proper examinations of their own. Any bank might join a league whose purpose it was to audit its members' acounts. Such a league might do no business on its own account, and it must prove that it was capable of performing its duties properly. But if it met these requirements, its examinations were to be accepted in place of government audit. The bank's supervisors were ordered to take part in the audit. The audit must occur at least once in every two years. Its results must be reported to the general assembly.

The last of the series of important innovations made by the statute of 1889 was the permission given to cooperative societies to join other cooperative societies. With this was given by implication the permission to form societies whose membership consisted exclusively of other cooperative societies. Such organizations are known as central cooperative societies, or more briefly as cooperative centrals.

These cooperative centrals must be distinguished sharply from the cooperative leagues on the one hand and the federations on the other. The cooperative central does business as does any other cooperative society. It is subject to the same law. If it is a central cooperative credit society, it may not make loans to any one except members, i. e. local cooperative societies. It also must be audited and for that purpose may join an audit league. These audit leagues on the other hand are the subordinate leagues of the great federations. Their purpose is to supply the required examiners, to give advice, sometimes even supply attorneys to represent members. These audit leagues are recognized in the law and regulated as a separate institution. Finally the federations do the work of political representation, gathering information and publishing it.

Schulze-Delitzsch and his followers opposed the organization of centrals. They felt that the liability which a member assumed on entering a people's bank was all that any man ought to assume. If then this bank were to join a cooperative central, there would be two organizations involved and mismanagement of either one of these could cause bankruptcy, and the suffering which that entails. It seemed to him to be an unnecessary risk. And for the Schulze-Delitzsch people's bank such was indeed the case. The Schulze-Delitzsch plan, it will be remembered, called for large societies, located in a town or city and including within its membership men from all occupations. The urban location should put the bank in touch with people who had money to deposit. If the bank were well managed, it could then presumably attract a pretty stable set of deposits. With a varied membership, the demand for loans should be pretty well distributed throughout the year and there would be no great need of regular seasonal borrowing from a central. Temporary loans to meet exceptional demands could be supplied by some neighboring people's bank or by the Federation's central institution, the *Soergelbank*.

Under these conditions Schenck and his associates in the Universal Federation felt not only that they did not desire to have their own banks assume the risk of membership in cooperative centrals, but also they did not desire to have the reputation of the whole cooperative movement endangered by the existence of such institutions. In this effort to prevent the new form they were again defeated. In fact the record of the fight shows many defeats. But on the other hand, many changes desired by Schenck's opponents were defeated. One famous bill offered by a Conservative leader proposed twenty-one amendments. Not one of these was adopted in its entirety. Thus perhaps the honors were divided evenly. But of the various changes which were

made practically the only two which were the direct results of the agitation of Schenck and his associates were the compulsory introduction of share capital and of supervisors. Thus the situation was very different from that in 1867 when one man, Schulze-Delitzsch, had virtually written the entire statute. The difference was caused by three facts. In the first place Bismarck was not in need of an amnesty bill and of a general reconciliation. In the second place the very success of the cooperative movement had caused so many people to be involved, that no one group could hope to dominate within it. In the third place, in the political arena outside of the cooperative movement, an alliance which included the Conservative party was in the saddle. Considering these facts Counsel Schenck and his associates did extremely well in their fight. Even if they did not get just what they wanted, they probably came closer to their objectives than any other single group. And that is saying a great deal for a movement which was no longer favored by the political situation of the times. Judged from this distance Schenck and his associates fought a good fight.

This statute of 1889 is of great importance. It was amended in 1896 and again in 1898, but these amendments left the general structure of the German cooperative societies unchanged. This statute of 1889 is important also because it has furthermore apparently formed the basis from which the law-givers of other countries have started in their efforts to fashion appropriate legislation for their own lands. This statute is a real landmark in cooperative history. It has won general regard as a real masterpiece in legislation.

The enactment of this statute was followed, it will be recalled, by the transformation of many banks from the cooperative form into joint stock corporations. In the year

1889 alone there were no less than 149 such transformations. As has been said, these transformations were made chiefly in order to keep profitable business with non-members. Furthermore many cooperative societies simply ceased to register. They thus became mere voluntary associations, with only the legal rights of such associations. These forfeitures of the rights of registered societies were largely to avoid the legal examinations and the expense they involved. But on the other hand the law was followed by a great increase in the membership of the Universal Federation. Audit by subordinate leagues promised to be cheaper and more satisfactory than audit by special examiners appointed by the court, and for this reason many banks joined the subordinate leagues and thus incidentally the Universal Federation also. Thus in spite of very considerable losses the report of the next year showed an increase in the Federation's membership amounting to no less than 289 societies.[1]

The autumn of 1889 was marked by a severe stringency in the money market and by the dissolution of the second rival of the Universal Federation's pet *Soergelbank*. The Rhenish-Westphalian Cooperative Bank of Cologne had been established in 1871 because of discontent with the conservative policy which the *Soergelbank* had adopted with the approval of Schulze-Delitzsch and the Universal Federation. The Rhenish Westphalian bank now disappeared. But any possible satisfaction to be obtained from this event was wiped out by the difficulties which the Soergelbank was itself facing and the impending creation of a new and more powerful rival, the Prussian Government Central Cooperative Bank.

The next few years of Schenck's counselship seem to have

[1] R. Finck, *op. cit.*, p. 129.

been largely occupied in the fruitless effort to prevent the establishment of this state institution. This fight was conducted not in the Imperial Reichstag, but in the Prussian Landtag. It created a considerable excitement in the Schulze-Delitzsch movement, but the defeat of their cause in this case affected members of the Universal Federation relatively little—apart from matters of pride and principle. The Prussian Government Central Cooperative Bank has apparently benefited the Schulze-Delitzsch banks not at all and has apparently injured them only in their feelings. The description of this dispute may then be reserved for our next topic which is the general subject of state aid for urban cooperative banks.

CHAPTER VII

State Aid and the Hauptverband

By 1885 there were in Germany three federations of cooperative societies. In the first place there was the Universal Federation of Self-Supporting Cooperative Societies, Schulze-Delitzsch's organization, whose history we have been following. In the second place there was the General Federation of Rural Cooperative Societies. This had been formed by F. W. Raiffeisen, a man who had taken the Schulze-Delitzsch plan and remodelled it to meet the needs of rural cooperators. Third and last, stood the Imperial Federation of Agricultural Cooperative Societies organized by W. Haas who had taken the Raiffeisen plan and liberalized it to meet the needs of a rather larger group of farmers than did the original Raiffesen scheme.

The situation of the Schulze-Delitzsch Federation differed strikingly from that of the two agricultural federations. The people's banks of the Schulze-Delitzsch Federation were substantially able to meet the needs of their borrowing members. The agricultural cooperative banks were not. The Schulze-Delitzsch people's banks of course often had difficulty in raising sufficient capital to meet the needs of their applicants for loans. But that difficulty is at some time or other the common lot of nearly all banks. The people's banks felt the difficulty somewhat more than the ordinary commercial banks, but that was all. The agricultural banks faced a much more serious difficulty.

In the first place their members were borrowers only.

There were no "creditor members." In the urban people's banks the high dividends had attracted some non-borrowers into membership. The adoption by the agricultural banks of a policy of low dividend payments had excluded from their ranks all members of this kind. In the second place the village communities probably contained no considerable number of people with surplus capital to lend. No matter what inducements were offered, it would have been difficult to find creditor members. The farmer can always invest in his own farm any surplus he may have. Wage-earners and salaried employees, who would make the best "creditor members," were relatively scarce in rural villages. The village's lack of capitalists, who had no business of their own to absorb their savings, its lack of salaried or wage-earning savers, was reflected also in the related difficulty of attracting deposits. The similarity of the various rural villages prevented any of the village banks from having any large surplus to lend to others. Still worse, the village borrowers wanted loans that ran, not for three months, but for periods ranging from six months to six years. Thus the rural banks were not in such good position to promise prompt repayment. Therefore they could not borrow readily from the commercial banks.

Under these conditions the leaders of some of the agricultural banks had striven in 1889 for amendments to the cooperative law which would (1) permit corporations and cooperative societies to form cooperative centrals which could then take up the task of borrowing for their member banks; and (2) permit adoption of limited liability for cooperative societies. But even after the bitter fight for these amendments had been won, and the cooperative centrals had been organized, there was still trouble among the rural banks. Some capitalists probably were afraid of this new legal form of business organization, the central coopera-

tive society. But there was another and much more serious difficulty. The new cooperative centrals, or at least a considerable number of them, seemed none too eager to pay the market rate of interest for loans. They wanted to borrow money at rates which would let them re-lend to local banks under such moderate conditions that these local banks could finally again re-lend at no more than the market rate. Naturally they were none too successful.

In the years from 1890 to 1893 six of these cooperative centrals were started in towns pretty well distributed over Germany; Hanover, Bonn, Halle, Neisse, Wormditt and Kempen. All these institutions suffered more or less chronically from lack of capital.[1] This difficulty is perhaps less significant than might be expected in view of general business conditions at this time. The panic of 1890 in England had been followed by a real crisis in Germany in that same year. Thus fresh capital was abnormally difficult to secure and interest rates were high all over Germany in 1890.[2] By 1891 business depression had started, interest rates were normal but capitalists were not hopeful. 1892 saw the depression well under way. Business men were no longer eager to borrow and interest rates were abnormally low. Such a year should have made it easy for new borrowers, like the cooperative centrals, to secure all the capital they desired, if their security were good. But unfortunately the financial panic of 1893 in New York precipitated a new crisis in Berlin and capital again became scarce. It was not until the years 1894 and 1895 that the cooperative centrals had a real chance to get started. But by 1895 the campaign for state aid was again under way.

It seems fair to the supporters of this campaign, however,

[1] R. Finck, *op. cit.*, p. 137.

[2] W. C. Mitchell, *Business Cycles*, p. 167.

to point out that they were probably right in their fundamental assumption that the failure of the new cooperative centrals to secure the loans they needed was not due to temporary causes, but to more fundamental difficulties such as their lack of owned capital and their low interest rates.

This lack of owned capital could have been eliminated if the various cooperative centrals (or their members) had been willing to go through the slow and painful process of saving and accumulation. But to raise capital by this method was a feat equally possible of accomplishment by each cooperative local. No "central" with its attendant membership-liability and risk was necessary for this achievement. All that would be necessary was time and the requisite will-power and self-denial. Now the cooperative centrals had been organized in order to secure capital by some easier and quicker route. Their failure to secure the desired loans from the commercial market was thus followed by a campaign for state-aid.

In the spring of 1895 a Conservative member of the Prussian House of Representatives brought in a proposal that the state set aside 20 million marks for loans to agricultural banks at a rate of interest not to exceed 2½%. A somewhat different bill was presented in this same session by Dr. Arendt and a group of Independent Conservatives. This second bill provided for the creation of a government loan institution as a central source of credit for the smaller farmers and artisans.

On May 3, 1895 the government announced its readiness to undertake the drafting of a law to this effect. For this purpose a commission was to be appointed. Then to clear the way for the work of this commission both of the above bills were withdrawn. On May 18, 1895 the Prussian Minister of Finance summoned his commission together. It consisted of representatives of the ministry, of the Reichs-

bank and of the various types of cooperation. The genuine need of some better method of securing capital for agriculture was brought out forcibly. A state institution whose purpose was lending money to cooperative banks was proposed as the remedy, and all members of the commission agreed to this program—except the representative of the Schulze-Delitzsch movement, Schulze-Delitzsch's old friend and co-worker, Parisius.

The work of this commission was embodied in a bill presented to the House of Representatives by the Minister of Finance, Miquel, on June 18, 1895. The bill passed its first reading, was referred to the budget-committee, was approved by them and returned to the house. It passed its second reading July 2, 1895, its third July 3, 1895 and was finally put into effect by royal proclamation July 31, 1895. Two months later the *Preussische-Central-Genossenschafts-Kasse,* or *Preussenkasse,* opened its doors.

This *Preussenkasse,* or Prussian Central Bank for Cooperative Societies, was created as an out-and-out government institution. It was to be managed by a board of directors who were to be appointed by the king on nomination from the ministry, and these directors were to hold office for life.

The statute of 1895 provided that the state should contribute to the share capital of this institution 5,000,000 marks payable in Prussian government three per cent bonds. It was also provided that cooperative centrals could purchase shares. It soon developed that the cooperative centrals had little surplus capital to invest. But even if they had had large amounts, it is not likely that they would have invested much in the stock of the *Preussenkasse* for three reasons. In the first place the government's stock had been paid for in bonds which were worth less than par. In the second place the purchase of stock gave the holder no con-

trol over the affairs of the *Preussenkasse* nor any specially favored position as a borrower. Borrowers and shareholders alike could participate in the choice of an advisory committee. But neither class was especially favored even in this matter; and the committee's authority was advisory only, not mandatory. Finally, it was the intention of the law that the *Preussenkasse* should be managed primarily in the interest of its customers, not of its stockholders. Net earnings then would probably be low and even these earnings were by statutory requirement to be devoted largely to increasing the bank's surplus, rather than to paying dividends. A cooperative central could lawfully secure a maximum return of only 3½% a year by investing in such stock. A share subscription would bring to the subscriber the reputation of being ready to cooperate, and very little else. But such readiness to cooperate with the new institution could be appropriately shown by a very tiny investment.

The failure of the cooperatives to participate in the *Preussenkasse* as investors is to be sharply contrasted with the eagerness which a large number of them promptly displayed to be allowed to participate as borrowers. There was undoubtedly a great need for more capital in agriculture. Therefore on June 8, 1896 a new law was passed by which the state increased its investment in the *Preussenkasse* from 5,000,000 marks to 20,000,000 marks. Even this sum soon seemed too small and on April 20, 1898 a third statute increased the state's investment to 50,000,000 marks. Finally on July 13, 1909 this investment was increased to 75,000,000 marks. This last increase however was not for the purpose of extending cooperation in general or of benefiting existing banks. This last 25,000,000 marks was to be used by the bank for the purpose of aiding in the Germanizing of Prussian Poland, a work in which the government hoped

to use the cooperative movement. Counting all of these government investments and also the purchases of stock made by the various cooperative societies, the total share capital of the *Preussenkasse* by the end of March, 1910 amounted to 76,400,000 marks.[1]

The purpose of the *Preussenkasse* was not solely to supply loan-capital for agriculture. Long-term loans at least were already pretty generally available to farmers in most parts of Prussia though the activities of the *Landschaften* and various savings institutions. Short-term loans only were needed. But these in the opinion of the Prussian ministry were needed equally by the petty shopkeeper and artisan, as well as by the peasant. The purpose for which the bank was established then was to provide capital for short term loans to both of these groups of borrowers. To take Miquel's own words:[2]

> The point at issue here is the encouragement of short term borrowing, and that in this case for the middle class in both city and country. By middle class I mean those people who are in business at their own risk with a limited capital and are doing their own work. . . .

To measure the success of the *Preussenkasse* in using this very considerable endowment in such a way that the extension of the practice of short term borrowing throughout the Prussian kingdom would compensate the government for the cost incurred is a problem of considerable importance. The cost incurred by the government of course has not been the entire 75,000,000 marks invested, but merely the difference between the dividends[3] which the government has

[1] Wygodzinski, *op. cit.*, p. 179.

[2] Speech of Finanzminister Miquel, reports in *Verhandlungsbericht des Preussischen Abgeordnetenhauses*, 1895, p. 2400 *et seq.*, quoted by Finck, *op. cit.*

[3] Finck, *op. cit.*, p. 182.

received from its bank stock and the annual interest which the government has been compelled to pay on bonds which it gave in return for that stock. In addition to this there have been, of course, certain other costs. The bank has absorbed a certain portion of the time of successive ministers of finance and other officials.

The results secured by the *Preussenkasse* have been very uneven. In the field of urban credit the *Preussenkasse* appeared as an unwelcome coadjutor. The Universal Federation through both Counsel Schenck and Counsel Crüger had opposed the establishment of this bank. Fifteen years after the establishment of the *Preussenkasse* the Universal Federation of Schulze-Delitzsch Banks was still to be found in this same position of isolation and at least passive hostility, and the title of that organization was still the "Universal Federation of the German Cooperative Societies Which Rely Upon Self-Help."

This separation between the *Preussenkasse* and the Universal Federation was due in part perhaps to the policy of the *Preussenkasse's* directors. They decided not to make loans to any local cooperative societies, but only to cooperative centrals. But, it will be recalled, the members of the Universal Federation were bitterly opposed to the diffusion of responsibility which membership in a cooperative central involved. Counsel Schenck and the Universal Federation had fought the introduction of those sections of the Act of 1889 which had permitted the creation of central cooperative societies. Twenty years after the passage of this statute and nearly fifteen years after the creation of the *Preussenkasse* there were within the Universal Federation but two cooperative centrals. These were (1) The League Bank for East and West Prussia founded at Allenstein in 1897, and (2) The League for Cooperative Societies in Northwest Germany founded at Heide in Holstein in 1898.

Both of these cooperative centrals were located in regions predominantly agricultural, where perhaps ordinary banking accommodation was rather more difficult to secure. The first of these did not accept aid from the *Preussenkasse*. The second, located in Heide, had accepted loans from the *Preussenkasse*. But this cooperative central had been joined by only 24 of the 45 local cooperative societies which are united in the audit league for that district.[1] Thus fifteen years after the *Preussenkasse* opened its doors, this one small organization included all the Universal Federation's people's banks which had accepted help from the government institution.

But urban cooperative credit has never been exclusively confined to members of the Universal Federation, and since the establishment of the *Preussenkasse* especially, urban cooperative credit institutions outside of the Universal Federation have increased in importance. But this more recent growth has been so directly a product of the *Preussenkasse* itself that it must be considered in connection with the history of that institution.

The story of the *Preussenkasse* up to the Great War may be conveniently divided into two periods; 1895 to 1898 and 1898 to 1914.

The years from 1895 to 1898 were for the *Preussenkasse* a period of rapid expansion. The whole bureaucracy of the Prussian government was in its service from the start. Special lecturers employed by provincial or county officials travelled up and down the land spreading the gospel of cooperation—all at government expense. Such lecturers were naturally under a pressure to show results. Thus cooperative societies were often started in places where apparently there was little need for such organizations and

[1] Finck, *op. cit.*, p. 160.

where there was perhaps even less chance that such organizations could be well officered and wisely led. Members were even enticed away from existing Schulze-Delitzsch societies in order to help start new banks, and as soon as seven such banks had been started, a new central was organized which immediately applied to the *Preussenkasse* for a loan.

Whether wise or not, this government propaganda was extraordinarily successful in extending cooperation in general and the influence of the *Preussenkasse* in particular. Within two years the government bank had succeeded in attaching to itself 5,000 of 7,636 cooperative societies which by that time were operating in Prussia. And within these 5,000 societies were 12% of all the farmers in Prussia.[1]

During these two years Counsel Crüger was active and bitter in his attacks upon the government bank and its policy. In 1898 the *Preussenkasse* was compelled to curtail its loans somewhat, and immediately a storm of protest arose from a different quarter. It developed that the loans of the cooperative centrals and consequently the loans of the *Preussenkasse* itself were on good security, but they were not liquid. The borrowers could repay on the normal due date only at the expense of a considerable loss to themselves. Furthermore they had come to look upon these loans as an addition to their investment capital and felt entitled to renewals as long as the security was good.

With this experience in mind the policy of the *Preussenkasse* since 1898 has been much more conservative. Its business has been extended less rapidly. New cooperative societies have been started only where there was evidence of real need and where it seemed possible to find for the new banks a sufficient number of officers of the right kind. Counsel Crüger consequently has become less bitter in his

[1] R. Finck, *op. cit.*, p. 174.

opposition. The *Preussenkasse* from 1898 up to the Great War contented itself with the more humdrum policy of service.

From 1899 to 1910 it was the policy of the *Preussenkasse* to lend to its customers, the cooperative centrals, at an average rate of about 3½%. The cooperative centrals in turn lent to their members, the individual cooperative banks, at an average advance of about one half of one per cent. Thus the local secures at 4% funds which it in turn lends to its members, the real borrowers, at not less than 4½%. This rate to the ultimate borrower was certainly not unduly high. But in order to make this possible and to pay its own expenses, the *Preussenkasse* was compelled to offer to its own creditors not more than 3% on their deposits. It is partly for this reason that it has not attracted large deposits and has therefore been compelled on several occasions to seek a larger endowment from the State. And on this investment by the government dividends have been low, averaging from ½ of 1% up to 3% a year.[1]

But the creation of the *Preussenkasse* did not end the concern of the government for the master artisan. The budget of the Prussian Department of Commerce for the year 1896-1897 carried an appropriation of 10,000 marks for the extension of cooperation among petty tradesmen. For the years 1898 and 1899 the appropriation was increased to 20,000 marks, to 30,000 marks for 1900 and again to 45,000 marks in 1905.[2] This money the government spent not only in the salaries and expenses of teachers of cooperative credit, but also in defraying the costs of pamphlets, organizing new banks, and finally some of it even was used in loans to increase the investment capital of new banks.

[1] Finck, *op. cit.*, p. 182.

[2] Finck, *op. cit.*, p. 270.

During these earlier years the government teachers of cooperation found that the easiest way to organize new banks among the artisans was to parallel the already existing gild organization. Thus some banks were formed whose membership was drawn entirely from one occupation. Such a "gild bank" then needed to join a central bank almost at once, because within the one occupation there was little opportunity for the exchange of temporary surpluses. Thus the growth of cooperative centrals was stimulated. And the need of audit felt by both the centrals and the local gild banks stimulated in turn the formation of new audit leagues. But such audit leagues would have little in common with the Universal Federation. Their members were violating every Schulze-Delitzsch principle. The new cooperative centrals attached themselves to the *Preussenkasse* and thus found support, but the new audit leagues were compelled to stand alone.

Under these circumstances the government looked with favor upon the effort of the League of Hanoverian Cooperative Societies for Artisans to form a new federation. Other leagues cooperated gladly and there was thus formed in 1901 the *Hauptverband deutscher gewerblicher Genossenschaften* or Head Federation of German Cooperative Societies for Artisans, commonly known as the *Hauptverband* or Head Federation.[1]

The Head Federation has its office in Berlin. Its purpose differs from that of the Universal Federation. It admits not only leagues of cooperative societies but also receives such societies directly, when the society can show some reason for not joining one of the subordinate leagues. It thus serves as an auditing league as well as a propagandist federation.[2] It admits to membership also Chambers of

[1] Finck, *op. cit.*, p. 276.

[2] Wygodzinski, *op. cit.*, p. 117.

Commerce and Chambers of Industry, some of whom have joined in order to lend to the organization their moral support. The membership includes also a few registered companies; but in this respect it is like the Schulze-Delitzsch Universal Federation. The greatest difference between the two federations lies in the character of the membership of the local cooperative societies. It would not be correct to say that the Head Federation included in general the less prosperous tradesmen and artisans, for the membership of the component locals of the Schulze-Delitzsch Universal Federation reaches at least as far down in the economic scale as does that of the locals in the Head Federation. The difference comes rather at the other end. The locals of the Head Federation do not usually contain also the group of distinctly prosperous tradesmen, store-keepers and small business men such as is to be found so often in the banks of the Universal Federation. The Head Federation simply does not extend so far up the economic scale.

The purposes of the Head Federation include: (1) the extension of cooperation among artisans by arranging for courses of study, by furnishing auditors and teachers for its component leagues and by publishing the federation's newspaper; (2) safeguarding the interests of cooperation in the passage of new legislation; (3) the improvement of the constitutions and by-laws of member societies; (4) supplying advice on all appropriate matters; (5) preparation of statistics concerning the cooperative movement among artisans; (6) serving as an audit league for those cooperative societies which hold a direct membership in the federation.

In many official circles the organization of the *Hauptverband* was hailed with real delight. It was hoped that the *Hauptverband* might prove to be a means by which those handworkers who had no assistants might be educated up

to cooperation. To extend a knowledge of business methods among these artisans, courses of study were established. These courses, however, were primarily designed for those who were planning to become managers of cooperative societies and could thus pass their knowledge on to a wider group. Attendance on these courses has been helped by scholarships granted by local chambers of industry, by local governments and by the state. In addition to this indirect aid the Head Federation has received also direct financial assistance from the government, usually, however, in very small amounts. But in one year this amounted to as much as $4500. This government aid has proved to be the chief prop of the Head Federation's financial system. Nevertheless that organization has striven to develop some independent income also. In 1905 this independent income amounted to $1750.

To the presidency of this new federation was elected one of the best known of the government's traveling lecturers on cooperation. To its vice-presidency the Head Federation elected the *Preussenkasse's* bank inspector. These two, together with the representatives of the various chambers of industry and the managers of the subordinate auditing leagues, form the board of directors. In spite of this interlocking management the Prussian Minister of Commerce has asserted that the government did not attempt to influence the policy of the Head Federation. On the other hand it is to be noted that other federations, less dependent on the *Preussenkasse* than is the Head Federation, have complained of such interference and the annual report of the Head Federation in 1906 concluded with thanks to the Prussian Minister of Commerce and Industry and to the *Preussenkasse* for the extensive assistance which the federation had received.

In spite of all this aid, things did not go entirely well for

the state-aided urban cooperatives. Out of a group of 579 cooperative societies including stores, factories and purchasing agencies, formed during the years from 1894 to 1905 no less than 146 dissolved. To people accustomed to the rapid formation, dissolution and reorganization of business firms which marks most American cities, such figures would perhaps indicate an impressive stability. At the end of the ten-year period almost precisely three fourths of the new organizations were still in existence and were still doing business under the same firm name. To Germans the dissolution of one fourth was the impressive fact.

Dr. Crüger, the counsel of the Universal Federation, based his attacks on these so-called "gild banks" chiefly on two grounds. In the first place all the members of the banks were drawn from one occupation. In the second, most of these new banks had adopted limited liability and had made the limit for this liability quite low. Thus the basis for borrowing was inadequate. The experience of these gild banks amply supported his view; public officials soon became convinced that the organization of gild banks was a mistake.[1] Two other points of difference still existed between Dr. Crüger and the representatives of the state-aided movement. Dr. Crüger set up as his two chief requisites essential for the success of a new people's bank, (1) the availability of good officers or at least of good officer-material, and (2) the genuineness of the need for the new bank.

That banks had been organized in places where there was no real desire nor need was admitted in 1906 by Representative Hammer, one of the leaders of the Head Federation.[2]

[1] Finck, *op. cit.*, p. 276.

[2] Finck, *op. cit.*, p. 274.

As might perhaps have been expected, it was discovered that the ordinary tradesman was not only an individualist but also a man of limited time, money and strength. He would not join a people's bank and help to maintain it simply because he might benefit his fellow-man and incidentally obtain some slight advantage for himself. He would usually undertake the effort and risk only when his need was great and the advantages clearly apparent and not too remote. Government officials on the other hand were interested in spreading cooperation because it would ultimately make the handworkers better business men and better citizens. Handwordkers might be induced to join, but they would remain members only when they saw some fairly immediate and quite tangible advantage to themselves.

The availability of good officer material has proved to be not only one of the most important essentials, but also one of the most difficult to estimate for large groups. Dr. Crüger once went so far as to assert that it was almost impossible to organize a cooperative bank which consisted solely of people who worked with their hands, and to have such a bank then prove able to survive under the conditions of present-day intense competition.[1] This assertion, in the extreme form that survival was impossible, time has pretty well disproved; and it would furthermore be unfair to Dr. Crüger not to point out that this assertion was made in March 1899 before the state-aid campaign had been under way long enough to show decisive results. On the other hand there can be no doubt that he here put his finger upon the most serious defect of the state-aided campaign, the organization of banks without a sufficiently careful examination of the officer material available. This defect had also appeared within the Universal Federation itself at the time

[1] R. Finck, *op. cit.*, p. 275.

of its most rapid growth. This defect is fatal and it seems to be an almost necessary concomitant of any wholesale campaign for organizing people's banks, or new businesses of any kind. The greater the resources and the more energetic the campaign, the greater the danger.

However, these state-aided cooperatives have not only survived, but have shown a remarkably healthy growth for nearly a generation, though the era of most rapid growth, as might be expected, was the period just following 1895 while the government was still conducting its great organizing campaign.

By 1903 there were in existence some 420 or 430 urban cooperative societies founded as a result of state aid. There were then 13 cooperative centrals which had been joined by 294 of these societies. There were also 10 audit leagues whose membership included 275 cooperative societies, either central or local. Most of these audit leagues had by that time joined the new Head Federation.[1]

Ten years later the Head Federation contained 472 people's banks of whom 427 published reports. These 427 contained 119,698 members and had outstanding at the end of the year loans amounting to 293,672,057 marks or approximately $75,000,000.[2] And even during the war time five years later figures remained approximately the same. The report for the year 1920 covered business up to December 31, 1918. At that time the Head Federation contained 15 central cooperative credit associations, 504 people's banks and 1046 cooperative societies of other types. Of the 504 people's banks, 432 published reports. These 432 people's banks at the close of 1918 contained 108,723 members. The banks' combined capital amounted

[1] R. Finck, *op. cit.*, p. 272.

[2] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1914.*

to 32,253,269 marks, their combined surplus accounts to 15,688,378 marks, while deposits and other liabilities amounted to 458,472,315 marks. In addition to other investments during the year, these people's banks of the Head Federation had lent to members during the course of that one year 1,427,028,046 marks. But most of the loans had been for short periods only and had been repaid, so that at the close of the year the loans still outstanding totaled but 300,033,263 marks. Fourteen of the fifteen cooperative centrals published statements. Their total loans at the end of the year were but 25,542,549.[1] When it is recalled that these centrals receive deposits and loans from local banks and from each other as well as from the *Preussenkasse*, it will be noticed that state aid in 1918 formed but a small portion of the total assets of the state-aided urban banks. On the other hand it must be recalled that by 1918 prices in Germany had risen to several times their pre-war average, though the mark had not yet fallen to its present level. Thus the services which these banks were rendering to their 108,000 members were not inconsiderable.

The normal American investigator would inevitably ask next whether the great campaign of state aid undertaken in 1895 and the years following has paid. To this an unqualified answer probably cannot be given. In the field of rural credit, the success of the campaign has been too great to be denied. But we are here concerned, not with rural or agricultural, but with urban and commercial credit.

In this narrower field the character of our judgment will depend entirely upon the nature of the standards which we set up for the purpose of judging the movement. If the test of success is to be the extent to which the new people's banks have been able to lend money safely and profitably to

[1] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1918.*

a group of city-dwellers not reached by other banks, our decision probably must be in the negative. At the very time that the locals of the *Hauptverband* were lending 300,000,000 marks to 100,000 members, the locals of the older Universal Federation were lending over 1,196,000,000 marks to 578,573 members. The financial results therefore, when considered alone, probably have not justified the effort expended in the government campaign.

If the test of success is to be not a question of how many men have received direct pecuniary benefit, but rather how many have been educated into becoming better business men through their dealings with banks whose friendliness and cooperation is assured, and how many men have been educated into better citizenship through their joint responsibility and joint control of the common undertaking, then our answer must be more cautious. On which side the balance will fall, would with each probably be found to depend ultimately upon how high a price he was willing to pay to have such education extended. In this connection it is interesting to note that the German states almost without exception have decided that the game was worth the candle, and in some form or other have followed the Prussian example of state-aid.

The next question which would naturally arise in the minds of most Americans is whether such a policy could profitably be adopted in this country. In this connection it must be pointed out that this experiment in state aid was undertaken in a country which already possessed an efficient bureaucracy, and in which people were accustomed to seeing hospitals, universities and charities managed by government officials. In the United States there are state institutions of each of these kinds, but most American philanthropic and educational enterprises, other than our public schools, are in the hands of private membership corpora-

tions and are often managed by boards of trustees. To a very considerable extent the functions exercised in Europe by the state are in this country delegated to privately-managed charitable corporations.

It should also be noted that the class whom the German governments have been most anxious to reach, the people whom they regarded as most in need of this aid as well as most worthy of it, have been a class which is almost non-existent in America to-day. Economists often divide the progress of industry after it emerges from the household economy into three stages:—(1) the handicraft stage (2) the stage of domestic manufacture and (3) the factory system. In the handicraft stage the man who does the work owns his own tools and materials and finds his own customers. This is the stage of the shoe-repair man and the local blacksmith. It is a type of business familiar enough to Americans. The second stage, that of domestic manufacture, occurs when the man who does the work, turns over the finished product to some merchant. The workman still owns his own tools, but he has lost contact with the consumers of his product. He gets his income either from a piece rate for work done in his own house or more usually from the difference between the price of the materials he buys, and the price of the product which he sells. If he has not sufficient capital to pay for his materials and must buy on credit, he may be compelled to sell his finished product to his creditor at a price more satisfactory to the creditor than to himself. This system of domestic manufacture is represented in this country by some of the sweated trades, by many of the negro tenant farmers and a few other examples. Here as in Germany the system has proved susceptible of great abuse, but with the important difference that in this country the "domestic system" is quite rare. The third stage, that of factory production in which the

man who does the work, owns neither tools nor materials nor does he find the purchaser for his product, was relatively more common in this country during the last decade of the last century than in Germany. It is the factory wage-laborer whom most American city-dwellers have thought of as needing relief. The German states were not trying to aid these, but rather the artisans who were producing under the first or second systems, that is, those who were in the stage of handicraft or domestic manufacture.

Finally, it is an open question whether the German banking system with its huge banks, each possessing a large number of branches, has met, or is capable of meeting, the needs of small borrowers as well as is the American system consisting of a large number of local banks each locally managed.

CHAPTER VIII

The Schulze-Delitzsch Movement Under Counsel Cruger

The service of Dr. Hans Crüger as Counsel dates from 1895. He entered upon his duties at a time when the government was very much interested in increasing cooperation in agriculture, and the state institution for that purpose (among others) had already been decided upon. This state institution started its existence almost as soon as the new counsel started his service. Even at the time that he entered upon this service, there were already more cooperatives of the rival types in existence than of the older Schulze-Delitzsch type. The rival systems consisted chiefly of small societies and of poor men, so that the Universal Federation still included more members and much more wealth than the rival systems. The Universal Federation had already assumed its present position as a leader among equals. The service of Counsel Schenck just about covers the period during which the Universal Federation was decisively deprived of any claim to dominance over the cooperative movement.

The first year of Counsel Crüger's service was marked by the passage of a supplementary cooperative law. At the insistence of the rival organizations of rural cooperative societies the statute of 1889 was amended (August 12, 1896) so as to permit the accumulation of a surplus above the share capital. On the face of it, this was merely a change allowing the adoption of an ordinary, conservative business

policy. But the fight over the new law was due to the fact that the banks of the rival system desired to pay no dividends at all on the capital invested by members, but to use all, or practically all, net earnings for the purpose of building up an indivisible reserve or endowment fund, which should belong not to members but to the community, in the sense that its prime purpose was to benefit future members. With such a quasi-socialistic scheme Schulze-Delitzsch and his followers would have nothing to do.

The growth of cooperative stores between 1889 and 1896 was such that this branch of the cooperative movement was now regulated in much greater detail. The statute of 1896 then contains a whole row of limitations imposed upon cooperative stores, but these may be omitted here as they do not concern the cooperative banks.

In 1897 the new code of commercial law finally appeared. Representatives of the various states of the German Empire had been disputing over the various differences in the law of property ever since 1871. It was not until 1896 that agreement could finally be reached and the results published as a statute of the empire.[1] The publication of this code made necessary various minor alterations in the cooperative law. These were made, and the whole cooperative law was finally codified and published in 1898 to go into effect on January 1, 1900.

In the mean time the fight between the Universal Federation and the Prussian Government Central Cooperative Bank continued. But the nature of these disputes has already been sufficiently indicated in the preceding chapter. The most significant events during the years following 1898 are those associated with the continued growth of the cooperative stores.

[1] *Cf.* Hayes, *Political and Social History of Modern Europe*, vol. ii, p. 404.

For a long time this aspect of the cooperative movement in Germany had been extremely backward, in spite of the fact that it was the cooperative store which had been first advocated in Germany by Huber. The reason for this slow development was simple. Cooperative stores made their chief appeal to wage-earners. And there were relatively few wage-earners in the Germany of 1850. Manufactures were still carried on chiefly by the handworker, that is, the master artisan. Cooperative institutions had to be recast to meet the needs of the people whose needs had not yet been met. In 1852 these were the master artisans. But by 1890 wage-earners in Germany were a force to be reckoned with.

In 1890 Dr. Glackemeyer, the manager of the Hanoverian League of People's Banks started an attack upon the cooperative stores. He asserted that the purposes of the cooperative stores and of the people's banks were so different that the two types of cooperative organizations ought not to be included in the same federation. His efforts to drive out the cooperative stores were defeated and he himself was severely rebuked. Thereupon he and his league withdrew from the Universal Federation and attempted to organize a rival federation for people's banks only. And for many months thereafter the organ of this new league continued to attack the leaders of the Universal Federation with great bitterness. The attack was unsuccessful. The cooperative stores in 1890 were too weak to arouse anything but sympathy.

But in 1891 there was organized in the kingdom of Saxony a league of cooperative stores which chose for itself the name "Forward." This name was significant inasmuch as "Forward" had long been the watchword of the German Socialist Party. This league was in fact dominated by Socialists as completely as the older Schulze-

Delitzsch movement had been dominated by Progressives. It is from the organization of this league in 1891 that the modern German cooperative store movement is to be dated.[1]

This league, like the earlier efforts of Schulze-Delitzsch himself, promptly attracted the hostility of the Saxon government. It happened at this time that the Universal Federation's subordinate league for the kingdom of Saxony then stood in high favor with the Saxon government. To prevent their organization from being completely crushed, the members of the "Forward" league tried to secure admission to the Universal Federation. This the individual cooperative stores which had formed the "Forward" league, succeeded in doing—after the representatives of each store had signed a statement that the organization would neither directly nor indirectly engage in politics.

In the years from 1890 to 1900 it was the growth of the cooperative stores which contributed most to the growth of the Universal Federation, and the administration of the Federation remained steadily favorable toward the cooperative stores. In 1893 the convention at Stettin voted to oppose all efforts to produce a schism between the cooperative stores and the cooperative banks. The resolution is interesting in that the motion was prepared by Counsel Schenck and was presented by Secretary Crüger, who was soon to become counsel of the Federation. This friendly attitude toward cooperation of all types was steadily maintained throughout the nineties. But while the federation was thus maintaining its attitude of impartial friendliness toward all, a schism was appearing among the cooperative stores themselves. By the time the statute of 1896 was passed, these stores were divided somewhat roughly into two types. On the one hand there was a group of stores whose

[1] Finck, *op. cit.*, p. 225.

opponents called them "middle-class." On the other hand there was another group which were in turn called "socialistic" by their opponents.

The stores, called "middle-class" by their critics, were for the most part larger than the others. In general the par value of their shares was higher. They were thus much more amply supplied with capital. An excellent (although an extreme) example of a cooperative store of this type is furnished by a member of the Silesian League of Cooperative Stores, the cooperative store at Breslau. In 1911 it had assets of over $1,250,000. It did a business of more than $5,500,000 and divided profits of more than $642,000 of which $10,000 went as interest to members for providing the capital and $600,000 was distributed to members as dividends on their purchases. It contained about 95,000 members of whom only about 15,000 were laborers, while about 18,000 were merchants, innkeepers or the like, and over 11,000 more belonged to various professional classes.[1]

The second group of cooperative stores, called "socialistic" by their critics, consisted chiefly of organizations in which the number of members and the share capital per member were much smaller, but the percentage of wage-earners was much higher.. The leaders of these organizations hoped to reproduce in Germany something equivalent to the Rochdale movement in England. The English had a Cooperative Wholesale Society. The leaders of the German "socialistic" cooperative-store movement organized a German Cooperative Wholesale Company at Hamburg. The English Cooperative Wholesale had undertaken production on its own account. The German Cooperative Wholesale Company desired to do the same and was prevented from doing so extensively only by its lack of capital.

[1] Crüger, *Jahrbuch des Allgemeinen Verbandes für 1911*, tables C. and D.

Nor were these projects the result of mere slavish imitation of the English prototype. These Germans were actuated by two motives—on the one hand a hope that they might perhaps thus secure their goods more cheaply, and on the other a conviction that production for personal gain was morally wrong. It was the second motive which was creating the schism.

The "middle-class" cooperative stores were ready to unite frequently for a joint purchase of goods which were shipped to one of the uniting stores and there divided and reshipped to the stores which ordered them. It has been said that in some districts there were even regular fortnightly meetings of the managers of the various cooperative stores to make such joint purchasing easier. But such purchasing agreements were usually mere temporary affairs. Only occasionally did these managers bother to organize a special purchasing society. Never did they attempt to maintain a jointly owned warehouse with a reserve stock. Ordinarily one society would make the purchase, distribute the goods, collect from the others and pay the bill. The policy was that of decentralization, each society for itself, and no manager was under any obligation to buy things on joint account if he could purchase them more cheaply otherwise, and such regular meetings seem to have been distinctly rare. The parallel between these "middle-class" cooperative stores and the Schulze-Delitzsch banks is obvious.

The "socialistic" cooperative stores on the other hand stood for a policy of centralization. They desired to make the Cooperative Wholesale Company the source of all goods to be distributed. Each society was expected to join the Wholesale not simply to secure goods more cheaply but primarily to strengthen the Wholesale and to make it better able to undertake its next task, that of independent manufacture.

In addition to these two strongly contrasted types, there had appeared by 1898 a third type, not intermediate, but sharply differentiated from each of these. This third type consisted of purchasing societies formed by the keepers of the ordinary retail stores. The purpose of these retailers' cooperative purchasing societies was joint purchase only. Like the organizations of managers of the "middle-class" cooperative stores, these new associations did not ordinarily attempt to maintain a jointly operated warehouse or a reserve stock. These organizations of retailers were in fact simply copies of the organizations already common among the "middle-class" cooperative stores. They were formed chiefly by grocers. At the annual convention Counsel Crüger greeted the cooperative societies of this new type with particular pleasure, because their entrance into the Federation made it obvious that the Universal Federation did not represent any class as against any other, but merely represented the self-supporting cooperative movement as a whole.

But by this time the whole had come to have parts which were too diverse. There were now three types among the cooperative stores alone: (1) the so-called "middle-class" stores (2) the so-called "socialistic" stores, and (3) the retail grocers' purchasing societies. Each of these involved complications.

First, as to the "middle-class" cooperatives. There was already trouble within the ranks of these organizations. Socialists were applying for membership, and an increase in the proportion of the membership belonging to that party was obvious. If the socialists were to secure a majority, they presumably would reverse the policy of the store. This would displease the older members who had no desire to encourage a socialistic cooperative wholesale company. Furthermore, if the socialists secured control, they would

presumably change the management. This would naturally displease the present officers, and the board of officers is a real power in determining the policy of a German cooperative society. But this impending danger of socialistic control could be averted by either of two methods: (1) a continuous and strict examination of all applicants for membership, an examination which for a cooperative store was not otherwise necessary, or (2) by the simple expedient of becoming a joint stock corporation. By the latter method the store management would also be relieved of the necessity of paying out the value of a member's share when he died. They would thus be relieved of the necessity of searching for new members, and of scrutinizing them, for socialists were not interested in corporations. Some cooperative societies therefore promptly were transformed into joint stock corporations.

The second source of trouble within the Universal Federation came from the retail grocers' purchasing societies. In Germany the retailers had always hated the cooperative store with a perfect hatred. Their attitude toward the cooperative store was not that of a rival toward a new competitor. It was hatred toward a competitor who does not play the game according to rules, who gives away all the trade secrets, who explains to customers many of the trade practices. And now these retailers were formally represented within the Universal Federation. No wonder there began to be talk about socialism!

Part of this second source of trouble lay also in the make-up of the people's banks. The borrowers in these consisted largely of master artisans and of petty tradesmen. Not many of these, except the grocers, had been hurt by the cooperative stores; but probably even fewer had been benefited. Furthermore the whole life of the petty tradesman was such as to make him understand the retail grocers'

complaint better than the cooperative store's policy. It is remarkable therefore that the Universal Federation maintained for so many years the attitude of benevolent impartiality. It is a remarkable tribute, not only to the broad-mindedness of the two Counsels, but also to the extent to which the Universal Federation is really dominated by its abler leaders.

The third source of trouble was to be found in these "socialistic" stores. Their policy of building up a cooperative wholesale company and maintaining it for reasons apart from the immediate financial gain, had become so apparent by 1899 that Counsel Crüger called attention to it in his annual report. It was in the discussion of this report that Herr Schorling, the manager of the Hamburg Cooperative Wholesale Company, announced his ambition to give his company the same position in Germany that the Cooperative Wholesale held in England. The convention contented itself with merely recommending the extension of wholesale cooperative purchasing societies (instead of the Socialistic program of a cooperative wholesale company which would maintain a permanent store of its own).

In 1900 the matter came up again. The entire difference in the point of view was brought out in the fact that Crüger based his objections to the Hamburg Cooperative Wholesale Company on economic grounds. It was undoubtedly cheaper for cooperative stores in Bavaria to buy from the non-cooperative wholesalers in Bavaria than to send to Hamburg in northern Prussia. His tone was moderate. In 1901 a special committee of which Crüger was chairman, reported that the policy of starting factories of their own was practical only for those cooperative stores which had both adequate capital and an adequate market for the product. No encouragement was given to the idea of permanent cooperative wholesale stores. This report was bitterly attacked by various socialist newspapers.

At the convention of 1902 at Kreuznach, Counsel Crüger reported that there was no place within the Universal Federation for those cooperative societies which were using the cooperative form merely as a lever with which to change the whole economic system. Finally on September 3, 1902 no less than 97 cooperative stores were expelled from the Universal Federation on this charge. Within the next two years over 300 more resigned.[1]

These 300 resignations are merely one evidence of the bitterness which was aroused over the expulsion. There was a veritable tempest in a tea-pot. Crüger was horribly abused by many non-socialists for his action. Yet from this distance one cannot but wonder if such action were not inevitable under the circumstances. The wonder is rather that it had not happened before.

Most of the larger and wealthier cooperative stores remained in the Universal Federation. These were not so numerous as the others, but their number does not measure their financial importance. Those that remained were the "middle-class" stores. In 1911 there were 273 such cooperative stores within the federation. Of these 264 reported an average membership of 1013 and an average volume of sales (exclusive of commission business) of $68,163 per store.[2]

On the other hand the cooperative stores which had been expelled or had resigned, organized a federation of their own with its office in Hamburg. This *Zentralverband*, or Central Federation of Cooperative Stores, is frequently called simply the Hamburg Federation. Since its organization in 1903 it has grown rapidly. The expulsion of its members by the Universal Federation proved to be an ex-

[1] R. Finck, *op. cit. 6 Kapitel.*

[2] Crüger, *Jahrbuch für 1911*, p. xciii.

cellent bit of advertising. By the time the new league had been in existence three years, it contained 787 stores which in turn together contained 715,000 members.[1]

Each party was probably better off for the dissolution of the *mésalliance*. The alliance had been contracted under duress by the "socialistic" cooperative stores at a time when there was active government persecution of socialist organizations. With the passage of time the harrying of socialists had been given up. Freedom of speech had increased, and there was no longer any reason except inertia to hold the "socialistic" stores within the Universal Federation. Under those circumstances it would look to an outsider as if the more promptly the separation came, the better it would be for all concerned. And such apparently has been the case.

Scarcely had the excitement over the expulsion of the "socialistic" cooperative stores died down when a new misfortune came to the Universal Federation. The year 1904 was marked by the death of one of Schulze-Delitzsch's pet institutions, the *Soergelbank*. It was in that year absorbed by the Dresdner Bank, one of the largest financial institutions in Germany. This merger was forced upon the smaller institution by the difficulties in which it had become involved during the German crisis of 1900 and the depression of 1900 to 1904.[2]

In Germany as in most European countries during the last century payments were made, not once a month as in this country, but four times a year. And many of these payments were then made with currency, not by check. Therefore on each of the four "quarter days" men needed very considerable sums of money, the need lasting from a

[1] Finck, *op. cit.*, p. 204.

[2] *Cf.* R. Finck, *op. cit.*, p. 72 *et seq.*

few days before the quarter day when they began to get ready to make the payments, until a few days after the quarter day when the borrowers could count on having received the money that was due to them from others. All borrowers then were likely to desire to borrow a little more at such times than at others, but a banker's bank might find that its customers desired to borrow only at such times. A banker's bank which had no branches (or only one) and no right to issue paper-money might then have great difficulty in finding sufficient cash on these occasions to meet the great temporary demand for both loans and cash-withdrawals. Such was the experience of the *Soergelbank*. Four times a year its customers, the people's banks, desired to borrow large amounts and then for nearly forty-eight weeks of the year their demands were small. The problem of the *Soergelbank* was not that of a typical people's bank with seasonal demands for loans now from one group and now from another, but a large demand from all at precisely the same seasons, and those seasons extremely short—too short to be good revenue producers.[1]

To secure a revenue the *Soergelbank* was compelled to do other business as well. In fact it was planned even at the time of its foundation that it should. But in doing this other business it was faced with the alternative, as each quarter day approached, of either deserting the people's banks or deserting its regular revenue-producing customers. It remained faithful to the people's banks. Thus its capacity to serve others was much diminished and about the only kind of business it could secure was that of financing speculation. For this business the banks' managers were not well trained. In good years this business was extremely profitable, but in bad years it involved very con-

[1] *Cf.* Wygodzinski, *op. cit.*, p. 171.

siderable losses. The crisis of 1873 had been a bitter experience, but the *Soergelbank* had recovered from that and had more than recovered. In 1900 its capital had grown to $9,000,000. But the failure of the Leipziger Bank and the panic which that disaster precipitated involved it again in great difficulties. By 1904 its owned capital had been reduced to $7,500,000 and it felt compelled to accept the offer of the Dresdner Bank. Under the pressure of the existing difficulties the vote approving the absorption was rushed through the Breslau convention of the Universal Federation. And the *Soergelbank* ceased to exist.[1]

The Dresdner Bank then opened special cooperative sections both in its offices at Berlin and in its branch at Frankfort. In taking over the *Soergelbank* the larger institution took over also the clearing league which the former had managed. Through this clearing house there passed in 1909 a total of 827,311 separate items with a value of $71,450,000.[2] Soon afterward Counsel Crüger was elected to the board of supervisors of the Dresdner Bank.

The final noteworthy change of the period before the war is to be found in the growth of cooperative building societies. The early German building societies were like those in England or in the United States. They tried to help members to secure one-family houses and to pay for them. In this form they had relatively little development. But about 1885 the Hanover Cooperative Savings and Building Association started to build tenements to rent to its members. It thus started a new type of building society. The older type continued to exist, but the new type became the more important within the German empire—became in fact the only really significant type there.

[1] Finck, *op. cit.*, p. 72 *et seq.*

[2] Wygodzinski, *op. cit.*, p. 172.

Cooperative building associations of this new type consist—in Germany at least—chiefly of groups of laborers or of government employees, groups within which there is considerable uniformity of income and of expenditure. Nearly all are societies with limited liability and the shares are very large—that is, large for German cooperative societies. A survey made in 1908 showed that more than two thirds of all German building associations had shares whose value was between 100 and 300 marks, ($25—$75). About one fourth more had shares of less than $25 while only about 5% of the total number had shares whose par exceeded $75. This par, while huge for a German cooperative society, is amazingly small when compared with the American and English societies. Furthermore only about one third of the total membership had purchased more than one share.[1]

In addition to its share capital a building association ordinarily has a surplus. For the 642 building associations which reported in 1909 this surplus amounted to about one sixth of their share capital. But owned capital in these two forms together formed but a small proportion of the whole. In every league which reported, borrowed capital greatly exceeded the members' investments. The position of the building associations which belonged to the Universal Federation is typical. Here owned capital amounted to less than 12% of the total. Over 88% had been borrowed.

Of this borrowed capital more than four fifths had been borrowed by mortgage. About a tenth more was represented by savings deposits. The remaining tenth consisted of a miscellaneous assortment of debts, prominent among which were unredeemable debentures, instalments paid by members on houses which had not yet been transferred to them, loans and unpaid accounts for building materials.

[1] Wygodzinski, *op. cit.*, chap. xxii, pp. 223 *et seq.*

The outstanding fact about the finances of German building associations is thus the extraordinary percentage of borrowed capital. Mortgages alone supply well over two thirds of the total investment. For the associations in the Universal Federation the sources of capital were:

Debt secured by mortgage	72%
Other debts	16%
Share capital	10%
Surplus	2%

The proportion of the mortgage debt which has been borrowed on first and on junior mortgages is not available, but it is reported to be customary to give two mortgages. Indeed a second mortgage would probably be necessary in order to borrow so large a proportion of the total cost.

The reason for this great reliance on mortgage loans is to be found in the cheapness with which the building associations were able to borrow in this way. The great public funds for social insurance were ready to lend their reserves to these building associations at extraordinarily low rates. Three percent interest plus one percent a year to reduce the principal satisfied the managers of these funds for many years. But in 1910 the Imperial Insurance Office issued an order which required the various insurance funds to charge at least 3½%.

The dismay which this increase in the interest rates caused then raised the question in many minds as to whether the German building associations were really fundamentally sound. This doubt was rendered all the more acute by the disinclination of association members to raise their own rents. Higher rents would mean adequate income for the association, adequate appropriations for surplus to insure solvency and liberal dividends paid back to members. Apparently members would merely pay out of one pocket into the other. The hitch lay in the "adequate appropriations

for surplus." This surplus would benefit the association and particularly future members of the association. But when a member moves away, it will be remembered that he is required by law to withdraw from the cooperative society. In withdrawing he may take out with him his share capital, but he has no right to any portion of the association's surplus. Thus members are not eager to economize in their personal expenses, to save in order to increase a surplus which will benefit, not themselves and their own families, but the strangers who are elected in their stead when they move away. And saving is not easy for wage-earners at any time.

This dependence of membership on place of residence with its consequent instability of total membership is indeed the chief difficulty in the German building associations. It not only makes members unready to accumulate a surplus, but it places before the managers and the associations' creditors alike the constant possibility that members may retire, withdraw their capital and thus narrow an equity already thin. It is an interesting commentary on the stability of the demand for housing in German cities that the difficulties resulting from this have so far been small.

On the other hand it must be admitted that the total of the dwellings constructed by German building associations is not large. In Frankfort A. M. a survey was made in which it was discovered that 95% of the dwellings there had been constructed by individual proprietors. Only 5% of the total had been constructed by associated activity. And this 5% of "associated activity" included not only building associations but also the city and the state as well as joint-stock corporations.

The importance of the building associations of Germany has lain in two things. In the first place the existence of this legal form of organization by which tenants could easily

unite to contruct their own building, has put them in a relatively strong position for bargaining with their landlords, and thus has probably enabled them to hold down rents to some extent at least. It is not surprising therefore that the landlords complain continually of the activity of the building societies. The second reason for the importance of building associations in Germany lies in the fact that these associations have been pioneers in the contruction of model tenements and in the adoption of modern improvements.

The chief objection to them seems to be social rather than economic. Starting with a group already homogeneous in the type of housing they demand, and frequently homogeneous also in income, occupation and general view-point, the building association of this newer type supplies for its members a centre wherein each may interchange his ideas with others in the group and thus grow more uniform in view-point and habit. This like-mindedness or consciousness of kind combined with the mere physical distance of people belonging to other classes has tended to create in these tenement or apartment houses a group of people as exclusive as our so-called " four hundred." And the desirability of this condition has rather justly been questioned. The problem is not serious chiefly because the movement is not yet of sufficient size to make it important.

These various problems perhaps are sufficient to illustrate how far the Schulze-Delitzsch movement has progressed from its original rather simple form. In size too the movement has progressed. The Counsel's report for 1913 covering business up to the close of 1912 presented the following figures (1) for that portion of the Schulze-Delitzsch movement which was represented by the Universal Federation, and (2) for all German cooperative societies whether strictly Schulze-Delitzsch or belonging to one of the many variants from this type.

	In the Universal Federation	*In Germany*
Number of cooperative societies in existence		33,657
Number of cooperative societies reporting	1,471	25,023
Number of members	1,007,736	5,162,450
Share capital and surplus	91 million dollars	180 million dollars
Borrowed capital	349 million dollars	1524 million dollars
Total receipts and disbursements for the year 1912	4 billions of dollars	7 billions of dollars

CHAPTER IX

The Universal Federation of Self-Supporting Cooperative Societies

The development of the Schulze-Delitzsch movement, the activities of Schulze's Universal Federation and its ambitions have been described in the preceding pages. But nothing has been said of the nature of the organization through which this movement has functioned. We must, therefore, now consider its institutional frame-work, that is, the structure of the Universal Federation.

The growth of this institutional skeleton—as contrasted with the development of the whole body—may be summarized briefly. It will be recalled that from 1852 until 1859 the only bond between the new banks was the personal influence of Schulze-Delitzsch. In 1859 his position as advisor and publicity manager was recognized by the creation of the Central Correspondence Bureau for German People's Banks with Schulze-Delitzsch as secretary. In 1860 a committee was appointed by the member unions to cooperate with the employed secretary by supervising the work of the bureau. In 1861 this secretary changed his title to Counsellor. In 1862 the Counsellor secured the creation of provincial leagues to help him with his work, especially with the task of supplying trained accountants to audit the local banks.[1] Two years later the whole system was standardized by the adoption of a constitution. In 1864 also the annual convention chose for its newly standardized organization the mouth-

[1] *Cf.* W. Wygodzinski, *op. cit.*, pp. 92 and 93.

filling and sonorous title *Allgemeiner Verband der auf Selbsthilfe beruhenden deutschen Erwerbs und Wirtschaftsgenossenschaften* which in this book has been translated —"The Universal Federation of Self-supporting Cooperative Societies." The passage of the cooperative statute of 1889 hastened some changes in the structure of the federation; thus this constitution underwent a revision in 1891. Some rather minor changes were made again in 1904. The structure of the federation has however remained fairly uniform for fifty years, perhaps because the purposes to be served have remained much the same.

The purposes of the Universal Federation, as stated by its constitution, include: (a) the advancement of the general cooperative movement, (b) the progressive improvement of the constitutions and policies of the member societies, and (c) the protection of their common interests.[1] The Universal Federation is not an auditing league. In this it differs from the Head Federation. It differs from the Head Federation and also from all other federations in that it assumes the burden and expense of gathering and publishing each year the statistics of all cooperative societies in Germany. It thus lives up to its pledge of serving not only its members but also the entire cooperative movement.

The membership of the Universal Federation at the close of 1919 included the following:

948	societies for cooperative credit (people's banks)
3	joint stock corporations doing the same business
1	limited partnership with transferable shares
252	societies for conducting cooperative stores
1	joint stock corporation for the same purpose
165	cooperative societies formed for carrying on special kinds of production or trade
229	cooperative building societies

[1] W. Wygodzinski, *op. cit.*, p. 110.

7 joint stock corporations which were doing the work of cooperative building societies
17 joint stock companies with limited liability doing the same work
20 Chambers of Commerce, Congresses of Handworkers and other membership corporations, forming a total of

1643 members of the Universal Federation.[1]

The development of the membership in the federation is shown by the following table.

Year	*People's Banks*	*Cooperative Stores*	*Building Societies*	*Associations for Special Trades*	*Total*
1859	27				27
1861	109			21	130
1865	447	25		43	515
1870	721	97	1	26	845
1875	822	237	16	57	1132
1880	812	200	2	44	1058
1885	824	171	1	37	1033
1890	1043	284	5	29	1361
1895	954	454	11	57	1476
1900	939	583	53	58	1633
1905	966	273	112	66	1417
1910	961	285	183	68	1497
1915	980	285	217	77	1559
1919	952	253	253	165	1623

The structure of the Universal Federation, as provided for by the constitution, includes the following organs or official representatives of the movement:

1. The Subordinate Leagues
2. The Federation's Convention
3. The Plenary Committee (*Gesamtausschuss*)
4. The Smaller Committee (*Engere Ausschuss*), and
5. The Counsel.[2]

Each of these bodies deserves at least a brief consideration.

[1] Crüger, *Jahrbuch des Allegemeinen Verbandes für 1918*, p. 129.

[2] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1918*, p. 128.

The subordinate leagues, since their formation in 1862, have been charged with the task of looking after the peculiar interests of their own members. Furthermore, ever since the passage of the statute of 1889, these leagues have been in the custom of registering as authorized audit-leagues and have discharged the duty of examining the condition of member banks.

Membership in these leagues is restricted to cooperative societies which are willing also to join the Universal Federation. The leagues are in fact the dues-collecting agencies of the Universal Federation. Further qualifications are usually either geographical or functional. The applicant society must either be located in a certain region or must be doing work of a certain kind.

The more important of these two lines of division is the geographical. When the leagues were first formed, this geographical division was imperative because the law was different in each of the various German States. The statutes of 1867 and 1868 removed some of this need, but the geographical division has continued to be the most important for various reasons. In the first place it was perhaps expected that members would sometimes attend provincial conventions who could not afford the time or expense incident to a long trip to a national convention. With the course of time this reason has become relatively unimportant because of the extraordinarily low passenger fares in Germany. At present the national convention is much larger than all the provincial conventions put together. The second reason for geographical or provincial organization lies in the fact that business conditions and problems are not uniform throughout Germany. The third reason lies in the fact that the administrative officials who must be dealt with are usually provincial officers. Finally, the smaller the area covered by an audit league the

more effective will audit become provided the league is large enough to keep a first-class auditor fully employed. These leagues also render some service to member banks by putting banks which desire to borrow in touch with possible sources of funds. Most important of all perhaps, they gather up the experience of the local communities and transfer it to the Counsel. The Federation is much too large to permit the Counsel to visit every bank even at long intervals. It would be difficult to maintain close contact by correspondence alone; but by visiting some thirty-two local conventions and on each of these convention-days meeting the representatives of some fifty cooperative societies the Counsel can keep in fairly close touch with each of the 1600 local associations. To accomplish even this much the Counsel or some representative must travel almost constantly throughout the summer. The league conventions usually begin about the end of May and there are likely to be some as late as the end of August. To a very considerable extent this traveling has in times past been done by the Counsel himself. This maintenance of contact between the central administration and the local associations is—next to their function of audit and examination—perhaps the greatest service of these provincial leagues.

With the growing importance of some of the special forms of cooperation, these territorial leagues had to be supplemented by leagues of a different type. There began to be a demand for traveling auditors who were especially familiar with the work of building societies or of cooperative stores. The importance of this is likely to be underestimated unless it is borne continuously in mind that these traveling auditors are much more than auditors or even accountants. They are peripatetic advisers as to business policy. And a man who can wisely advise the managers of a cooperative store as to business policy is too valuable a

man to waste on mere accountancy work for some association doing a business with which he is not especially familiar and which he could serve as an accountant only. There are to-day therefore no less than six special leagues for cooperative stores, four special leagues for building associations, eleven leagues designed especially to serve people's banks and finally there are eleven leagues which admit cooperative societies doing business of any kind, though banks form the majority in most of these leagues. There were thus within the Universal Federation in 1919 thirty-two subordinate leagues.

These thirty-two subordinate leagues were very unequal in size. But between them they included 1550 of the Federation's 1623 member associations. The 73 organizations which were members of the Universal Federation but were not members of any league included apparently[1] a small group of cooperative associations in the kingdom of Württemberg, a very few scattered associations and all the chambers of commerce, congresses of handworkers, etc. which naturally needed no audit.

The management of these leagues varies somewhat, but is usually confided to either a board of officers or a league manager. In the latter case a league secretary is usually also elected. These officers are sometimes elected directly by the league, but frequently the league elects only a certain cooperative society as manager. In this latter case the managing cooperative society elects a manager or a board of officers from among its own board of officers or board of supervisors.[2] As may be imagined, the duties of these officers are rather simple, except for the one great duty of appointing the auditor and sometimes a legal adviser.

[1] *Cf.* H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1915*, p. 113 *et seq.* and part ii, p. 86 *et seq.*

[2] W. Wygodzinski, *op. cit.*, p. 112.

But such officers, once appointed, usually hold office indefinitely. The ordinary routine duties of league officials consist then only of collecting dues from the member associations, collecting their annual reports and arranging for the (rather tiny) annual convention of the league.

In one of these leagues, namely, the Subordinate League for Pomerania and the Outlying Districts of the Electorate of Brandenburg, the managing society has won a position as a genuine central bank for the league. Other people's banks in the league have become members of this bank at Stettin, carry deposits there regularly, and borrow there as need arises.[1] This is quite different from the formation of cooperative centrals, that is, associations whose only real members are other cooperative associations, because this league had but thirty-five member associations in 1915 while the Stettin Bank itself had a membership of more than fifteen hundred.[2] Thus an overwhelming majority of the members of this bank were natural persons. And even this degree of concentration seems to be highly unusual.

One further result of the existence of these leagues seems to have been to give a fair degree of prominence to the post of league manager. It seems probable that able men have been held in the cooperative movement and induced by this prestige to serve not only their own bank, but also a whole group of banks in their province or state. The success of any business depends fundamentally upon the ability and interest of the men who guide it. To an American it would look as if the cooperative movement had taken every possible opportunity to use prestige as well as liberal remuneration as inducements to keep able men in the movement.

The second of the Universal Federation's official organs

[1] R. Finck, *op. cit.*, p. 67.

[2] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1915.*

is its Annual Convention, *der Allegemeine Genossenschaftstag.* This is a large body. Its attendance frequently exceeds the combined attendance at all the conventions of the subordinate leagues. Any member of any cooperative society belonging to the federation is entitled to attend. Any member of the board of officers or board of supervisors of any corporation or other organization which has joined the federation, is also entitled to take part in the meetings. Other people are given the privilege of membership by vote of the convention itself. Attendance is not limited strictly. Effort is directed rather toward making it a big and enthusiastic gathering.

This great gathering with its set speeches delivered in a hall so large that only a powerful voice can make itself heard and understood from any part of the room except the front platform, is in theory the governing body of the federation. It may amend the constitution of the federation and may thus lawfully do anything not prohibited by the general law of the land. In theory it is the sole final authority.

In practice leadership is enormously important in so large a body and the constitution of the federation has set up a machinery which provides an effective and fairly responsible leadership. But certain matters must still be voted on by the Convention itself. These include [1]

(a) the amendment of the constitution;
(b) the determination of the conditions on which the Counsel is to be appointed, the election of that official and the approval of the contract made with him;
(c) the election of members of the Smaller Committee;
(d) the recognition of (new) subordinate leagues;
(e) the expulsion of members;

[1] W. Wygodzinski, *op. cit.*, p. 113.

(f) the approval of the budget covering the receipts and the expenses for the next ensuing year;
(g) the approval of the federation's accounts for the year that has passed and the discharge of the Counsel from responsibility for money so spent;
(h) the determination of the annual dues which members must contribute toward the expenses of the federation;
(i) motions which may be made by the Counsel, the Smaller Committee, the Larger Committee, a subordinate league or a member association;
(j) the appointment of the periodical which is to serve as the official organ of the federation;
(k) rendering judgment in case of complaints;
(l) the dissolution of the federation.

The third official representative of the Universal Federation is the Plenary Committee. Its membership is not elected. It is therefore not responsible to the Federation's Convention. It thus constitutes the first element in the machine for supplying leadership to that convention. Its members hold office *ex-officio*. They are the heads of the thirty-two subordinate leagues.

The duties of the Plenary Committee include
(a) the formulation of expert opinion upon questions of fundamental significance for the cooperative movement, upon request from the Counsel or from the Smaller Committee;
(b) the confirmation or rejection of the man nominated by the Smaller Committee to fill the Counsel's place in case the latter should become incapacitated;
(c) the confirmation of the appointment of the deputies who are to represent the Counsel at Conventions of the subordinate leagues;

(d) provisional decision on the order of business for the convention;
(e) provisional approval of the accounts for the previous year and the budget for the year following;
(f) placing motions before the annual convention;
(g) summoning a special Convention when that seems desirable;

This Plenary Committee is itself too large to act as a genuine steering committee. Furthermore, it meets rather rarely. It is an essential part of the machine, but its purpose is the ratification rather than the initiation of policy.

The fourth official representative of the Universal Federation is the Smaller Committee. This consists of seven members, who are elected by the Annual Convention; but the Convention's choice is by the constitution limited to members of the Plenary Committee or to the official assistants of these members of the Plenary Committee. This Smaller Committee is an active and powerful body. Its duties include

(a) the preparation of the election of the Counsel and the appointment of a Deputy Counsel in case the former is incapaciated; (Preparation of the election under German practice seems to include both nomination and also a considerable degree of official care that the official nominee is actually elected.)
(b) the approval of all contracts which the counsel may make with subordinate officials and employees;
(c) supervision over the entire official conduct of the Counsel including the rendering of judgment when complaints are made against him; (Such judgments however remain subject to review by the Federation's Convention).
(d) the appointment of the day for the annual Con-

vention and the preparation of the order of business for that body (both of these duties however are to be performed only in coöperation with the Federation's Counsel).

(e) auditing the accounts for the last year and preparing the budget for the next, and the submission of both of these to the Plenary Committee;

(f) the approval of all expenditures which exceed the budget appropriation;

(g) the investment of all funds belonging to the federation;

(h) the ratification of all contracts which impose obligations upon the federation.[1]

The last of the official representatives of the Universal Federation is its Counsel. But this representative is unique in that he is also the sole legal representative of the Federation. He is in himself the entire board of officers and may therefore execute contracts which are binding upon the Federation, even though not approved by any of the other official representatives.

The duties of the Counsel include

(a) official representation of the cooperative movement by speeches and publications, and especially the representation of the movement in matters of legislation and contact with government officials;

(b) the encouragement of the various cooperative societies by giving them information and advice;

(c) the preparation and publication of statistics on cooperation and the editing and publication of the federation's periodical, now the *Blätter für Genossenschaftswesen*;

(d) the summoning of the convention of the federation,

[1] W. Wygodzinski, *op. cit.*, p. 110.

the preparation and execution of its decisions and the publication of a detailed report of its proceedings;

(e) participation in the conventions of the federation and its subordinate leagues either in person or by representative;

(f) responsibility for the property and accounts of the federation.

The Counsel is normally the presiding officer at both the provincial and national conventions, though this duty even in the national convention is occasionally performed by proxy. In all meetings as large as these national conventions the power of the presiding officer to recognize speakers and to fail to recognize them is one important element in the control of the gathering's decisions. In addition to the Counsel's power to influence the convention's decisions in this fashion, there is also the great influence which he can as editor wield in the choice of articles to be printed in the Federation's official periodical. The Federation has thus elected for itself a powerful and almost self-perpetuating leadership.

But this leadership, if powerful, is by no means irresponsible. Particularly in the case of the Counsel is this responsibility brought home. The Counsel is subjected to a pitiless light of continuous publicity. Nor does his position protect him in the least from a most vigorous, pointed and often very personal type of heckling from any cooperator who opposes his policies. The Counsel is held morally responsible for the conduct and the success of the whole Federation. It is relatively easy to " railroad " a convention, but the Counsel's task is not simply to " railroad " through the resolutions he wants to have passed, but also to choose for passage those resolutions which will keep his great Federation an effective, united body. To do that he must

conciliate as well as lead, and he must choose with exceeding care.

In 1919 the federation completed its sixtieth year as a going organization. It is a remarkable fact that in all that time it has had but three chief executives. The office of Counsel has virtually become a life-work for its incumbent. The publicity of the work has thus brought it about that a man's success or failure in life depends upon his success or failure in the conduct of that work. And the work has been well done.

Below the Counsel there are to be found a number of other officials. These of course do most of the actual work, but they are all responsible to the Counsel. None has any independent authority, though it is a customary courtesy for the Counsel to delegate to some of these men occasionally part of those duties which would bring the functionary into prominence, such as presenting motions or presiding over sessions of the annual convention. The contributions necessary to maintain all this bureaucracy averaged for a considerable period four-fifths of the net profits of each member association up to the amount of 100 marks ($25). This graduated scale encouraged many poor societies to join which would have been deterred by a straight membership fee of $25 a year, and these poor societies are just the associations which most need the aid and advice which the bureaucracy could give.[1]

In conclusion it may be pointed out that within the Universal Federation the real policy-determining body is to be found, not in the federation's annual convention, but in the Counsel and his thirty-two league managers, working through either the Smaller or the Plenary Committee. This is a small body to decide the affairs of a federation at whose

[1] R. Finck, *op. cit.*, p. 64.

convention nearly 600,000 people have the right to vote. Occasionally of course the "machine" is over-ruled, but these cases of failure to carry the convention seem to occur chiefly when there has been a previous disagreement among the small group of responsible leaders.

With respect to the position of the Convention, it is obvious that the Federation could have decided to make its Convention a genuine policy-determining body. But in that case it would probably have been necessary to restrict its size and to make sure that it fairly represented the cooperative movement as a whole and not merely those associations which happened to be nearest the chosen meeting place. In that case, also, it would probably have been necessary to restrict attendance to delegates elected in some definite proportion of membership. The other alternative has been to leave the convention open to all members of every member association and to secure fairness and continuity in the decisions by creating bodies which virtually decide in advance how motions shall be presented and what motions shall be passed. This second alternative has been chosen, and, as a result of that choice, the annual Convention now serves well another purpose, equally important, namely, that of imparting to the individual members of the Universal Federation both information and a very considerable degree of enthusiasm.

CHAPTER X

The Schulze-Delitzsch People's Bank in Operation

In the preceding chapters the evolution of the Schulze-Delitzsch cooperative movement and the structure of its leading organization have been traced in some detail. It seems desirable now to revert to the basic unit of that movement and to review briefly the work of the local people's bank. Subject to the rules outlined by Schulze-Delitzsch the third people's bank began business in Delitzsch in the summer of 1852. Because the conduct of the 1848 bank at Brussels and the 1850 bank at Eilenburg have exercised so little direct influence on the conduct of later cooperative banks, this institution is the one whose policies form the starting point from which has developed the financial plan of the modern people's bank.[1]

The bank at Delitzsch began by offering interest at the rate of five per cent to all who would deposit money with it. This rate was considerably above that offered to depositors by the local savings bank. This rate of interest when combined with the security offered by the unlimited liability of the bank's members, appealed to people who were saving money. The bank's deposits grew, slowly at first, but after a while more rapidly. In a short time they had reached a point where the deposits offered exceeded the demand for loans. It was then possible to reduce the rate of interest

[1] *Cf.* Schulze-Delitzsch, *Vorschuss und Kredit-Vereine als Volksbanken* (eighth edition, Berlin, 1915), revised by H. Crüger.

offered to depositors, and consequently the rate charged to borrowers. In 1855 the society was offering 4½% to depositors. This was still one per cent more than the municipal savings bank was offering, and the society furthermore was willing to accept accounts as small as twenty-five cents. Many of the accounts actually were of very small amounts, but they were numerous enough so that their total was a very respectable sum.

The next problem was to build up the union's capital. This was destined to serve as a guaranty fund to protect both borrower and member, a sort of first line of defense before it became necessary to fall back on the member's personal liability for the society's debts. A second and more important purpose lay in the fact that by compelling members to save it would turn them into small capitalists,[1] creditors as well as debtors. They would thus get a different point of view.[2] Finally the growth of this account would supply the association with a fund of capital independent of the vagaries of the association's creditors.

This share capital differed from the shares of stock in a joint stock corporation in two respects.[3] The shares were not paid in at once, but in installments.[4] The money paid in did not become the permanent property of the society, but was withdrawn by the member when he withdrew. In all these respects the Schulze-Delitzsch societies were like the savings and loan associations. The policy, common to these two, of doing business with a variable capital, a capital whose size depends on the number of members entering or resigning from the organization, has presented many diffi-

[1] R. Finck, *op. cit.*, p. 30.

[2] W. Wygodzinski, *op. cit.*, p. 51.

[3] R. Finck, *op. cit.*, p. 26.

[4] R. Finck, *op. cit.*, p. 30.

culties, but it was a fundamental part of the plan of the cooperatives.

Sixteen thalers, or $12. was set as the par value of shares in this first union in Delitzsch. This amount was so much smaller than the amount customary in cooperative savings and loan associations that the difference is striking. But the latter's policy of requiring monthly "dues" or minimum payments on the share, was taken over intact as was also their dividend policy. In order to induce members to save as much as possible, Schulze-Delitzsch decided to pay pretty high dividends, if possible. These, however, were not paid out in cash, but were credited to the member as part payment on his share. Only after the shares were fully paid could the member draw his dividends in cash.

Schulze-Delitzsch's first plan, as has been said, was to build up the society's owned capital so that borrowed capital would be unnecessary. But this proved to be both impossible and unnecessary. Later he strove to keep the owned capital up to one-half the borrowed capital, that is, up to one-third of the whole. This ideal many of his organizations have reached. But new societies generally, and many others as well, fall far below this standard.[1] Consequently the average ratio for his societies has always been far below this ideal. The average ratio of owned capital to borrowed capital has fluctuated from less than 20 per cent in the early days to a maximum of 34 99/100 per cent in 1895. For the banks as a whole this ratio of owned capital to borrowed capital has therefore never yet quite equaled 35%. The ratio of share capital to total assets thus has never yet equalled 26 per cent. The year 1900 is fairly typical in this respect and in that year the average ratio of owned capital (surplus plus share capital) to borrowed capital (de-

[1] R. Finck, *op. cit.*, p. 31.

posits plus loans from individuals and from banks) was about thirty per cent. Thus owned capital has in general not only fallen short of the Schulze-Delitzsch ideal of one-third, but in a typical year we find it averaging less than one fourth of the total.[1]

Conservatism and the accumulation of large capital was ever the counsel of Schulze-Delitzsch and his followers in the leadership of the movement. The objections to this plan lie chiefly in the greater profitableness of doing the same business with a smaller capital.[2]

Schulze's desire for conservatism in this matter is shown very quaintly by the method in which the size of the shares in the first society was determined. On examination it appeared that members needed loans to the amount of 3500 Thalers (about $2600). There were 220 members. The former divided by the latter gave 16 Thalers or $12, the par value fixed for the shares.

At the present time shares are usually fixed at round sums, for the most part 300, 500, 600 or 1000 marks. In those societies, where unlimited liability still is the rule, members usually subscribe for only one share, and the amount of the share is likely to be fairly high. But there are also societies in which the members' liability is limited to a certain number of times the value of his shares. In these societies it is not unusual for members to subscribe for more than one share and the par of each share is usually one of the smaller sums.

The basis on which dividends should be distributed has occasioned much discussion. A few have felt that a purely cooperative plan required that dividends should be divided evenly among members. Each member, they argue, has

[1] *Jahrbuch des Allgemeinen Verbandes für 1912*, p. lxxiii.

[2] R. Finck, *op. cit.*, p. 32.

been liable for the debts of the syndicate and has thus contributed towards its success. More have felt that the profits should be distributed in proportion to the business done with the bank. This was the plan of the cooperative stores. It was the plan adopted by the People's Bank of Liège not long before the war.[1] It is the customary policy among the French institutions. This policy has also had a considerable vogue in Italy under the imported name of *ristourne*. This plan has the advantage that it divides the profit in the proportion in which each man has contributed to the immediate source of these profits. Furthermore it reconciles members to paying higher interest rates; and it is an easy matter to reckon the amount of interest each man has paid to the society. The result desired by the advocates of this plan is to make the society consistent in its purpose. That purpose is to benefit people who need loans and who are worthy of credit. In an indirect fashion the representatives of this set of views long ago won their point. The Schulze-Delitzsch syndicates, when they could afford to do it, have set interest rates below competitive levels. By this it is not meant that a poor member of such an organization can borrow money at a lower rate than can a well-to-do customer of a commercial bank. It frequently happens that he can not borrow as cheaply. But the Schulze-Delitzsch societies have often set the rates which their members had to pay at a point lower than was necessary to secure the business. Their borrowers often have no access to the great banks. Rates have been lower than would be the competitive rates for these same men. In this indirect fashion then, members have benefited in proportion as they have borrowed and paid interest.

But for the direct division of the net profits, Schulze-

[1] Henry W. Wolf, *People's Banks* (London, 1919), p. 164.

Delitzsch elected to use as a base the amount of capital contributed by each. This was suggested probably by the analogy of the cooperative savings and loan associations. In fact, Schulze seems throughout to have deviated from that general plan of organization only where there was a direct and obvious reason for such deviation. However, in this particular case there was a reason for following their plan and for basing dividends on capital. This reason lay in the peculiar importance of capital to a credit institution. It seemed desirable to use every possible legitimate device to induce members to save and to pay for their shares.

In some of the larger and richer cooperative societies, this policy of high dividends has caused people to join simply for the sake of the dividends. When this begins to be the case, the organization is on the road toward becoming an ordinary business corporation. It means that dividends, not service to members, is becoming the society's goal. Under the legal definition of cooperation, such organizations would no longer be cooperative. Such a possible source of weakness is of course inherent in the Schulze-Delitzsch dividend policy. But high dividends of themselves are justifiable, so long as they do not become an end in themselves but are merely a means to an end.[1] In this case that end is to secure loans for members; the high dividends are a means of attracting capital which is necessary to the achievement of this end.

In this connection, however, must be recorded one of the most unpleasant developments within the cooperative field. In Galicia, where the local Polish and Ruthenian population is pretty unbusinesslike, there were in 1914 a number of people's banks, managed often by Jews, which made a regular practice of charging interest rates distinctly above

[1] *Cf.* R. Finck, *op. cit.*, p. 34 ff.

those charged elsewhere. A somewhat similar situation seems to have developed in some parts of Hungary, while even from within Germany itself there have been complaints that usurers have been allowed to join the people's banks and thus to borrow at low rates money which was lent out again at a profit to the usurer. Luckily such situations seem to have been quite infrequent.[1]

The alternative use for net earnings is to accumulate them as a surplus or reserve for bad debts. Finck states that in the first union in Delitzsch at the conclusion of the first year of its existence, all profits were devoted to surplus. To this surplus also were devoted all initiation fees. As the surplus grew and membership in the union consequently became more valuable, the initiation fee in the Delitzsch union was slowly increased until 1855 when it was finally set at what then seemed a considerable total—sixty-two cents! In most unions now the fee averages from 75 cents to $2.50. With initiation fees as small as this the surplus naturally is now chiefly derived from that portion of the annual profits which is set aside regularly for the purpose.

Deposits according to plan were received from any one who was willing to trust his money to the society. But loans were made to members only. In fact, since the passage of the statute of 1889 loans may lawfully be made only to members. But this statute grants exceptions to permit the temporary investment of surplus funds and the regular maintenance of deposit accounts in banks of the ordinary type.

In granting loans to members, it is no part of the cooperative plan to grant loans equally to all members. Loans are granted only when the credit seems safe. Thus there are always those who feel injured because they have not

[1] H. W. Wolf, *op. cit.*, pp. 181-183.

been treated as well as their neighbors. Some of these are people who join the cooperatives after they have been refused credit at the regular banks. Others are merely self-confident people who overestimate their own capacities. Whatever the cause, it seems to be an essential weakness of cooperation that those who have been refused credit, feel aggrieved in greater measure than if refused by ordinary banks. Business men who are refused by the regular banks, are likely to keep quiet about it. If they are refused credit by the officers of their own society, they are likely to denounce not only those particular officers, but also the whole cooperative movement as well.[1]

Loans are granted as in ordinary banks after considering the applicant's character, his capacity and his capital. But it seems fair to say that character is a more important consideration than it is in ordinary banking, and far more important than it is in the usual banking practice of large cities, where of necessity the bankers often can know but little of their customers and are compelled to pay more attention to the applicant's capital.

Even in the people's banks absolutely unsecured loans are rarely granted. In the Delitzsch union such loans were made, but only up to the amount of the paid-in portion of the member's share plus three dollars. Lending on the security of the society's own shares also soon was recognized as unwise, because this in effect reduced the capital which formed the union's guaranty of good faith toward its own creditors. Such loans are still granted. But they are opposed by the leaders of the movement and are granted only in small amounts, for short periods of time and then as exceptions.

At the other extreme, loans secured by the pledge of the

[1] R. Finck, *op. cit.*, p. 39.

notes of the borrower's own customers or other gilt-edged collateral would naturally be just the kind of business which the cooperatives would most desire. But of this they secure little for the reason that the ordinary commercial banks are ready to make such loans, and can usually do it more cheaply. Security of a less liquid type is, however, frequently offered and accepted. This is inevitable because it is security of this kind which the small business man possesses. A certain amount of loans are even protected by mortgages.[1] The society can get as security only what the borrower is able to offer.

The great bulk of the cooperative's loans, however, are on personal security. By this the Germans mean, not the specific pledge of personal property, but rather promises to pay secured by the guaranty of one or more people other than the borrower. This guaranty may take several forms. One of the simplest is by endorsement such as would appear on two- or three-name paper in this country. Originally most of these loans were made on the borrower's promissory note. This is still true in the south and west of Germany. But the cooperative banks have educated Germans of the middle class in the use of the bill-of-exchange. Thus now in both the centre and north of Germany the commonest single instrument received is the accepted bill-of-exchange.

This successful popularization of the bill of exchange is all the more interesting because as recently as 1878 while a usury law was under consideration, the German Reichstag seriously considered the advisability of prohibiting its use by just those classes of people who now form the backbone of the cooperative movement, namely, wage-earners, farmers and master-artisans. At that time many thought

[1] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1912*, p. lxix.

that such people would draw bills of exchange only when they were to be discounted at rates higher than that permitted by the law,[1] though there was a second objection to the use of bills of exchange by farmers and artisans in that German law gives more protection to the holder of an accepted bill of exchange than to the holder of a promissory note and there was—in 1878 at least—reason for wondering whether people without business training ought to subject themselves to the harsher rules of the law governing bills of exchange.[2]

But all of these forms are insignificant in importance when compared with the volume of business done in *Konto-Kurrent* or "cash credit". In the English-speaking countries this type of business is common only in Scotland, the country of its origin. But it seems to be extremely common all over Europe among joint-stock banks as well as among their more modest rivals. By this system a man is allowed interest at one rate on his deposit balance when he has one, but part of the bank's agreement with him is that he shall be allowed at his option to overdraw his account up to a certain specified amount. On these overdrafts he is charged interest at a second and higher rate. So long as his overdraft does not exceed the specified limit no objection is made. Overdrafts of this kind constituted nearly six hundred million marks, or more than half of the total loans outstanding in a group of 888 people's banks belonging to the Universal Federation at the close of 1918.[3]

These overdrafts or cash credits are sometimes called "character credit." But they are character credit in a technical sense only. They are not normally unsecured

[1] R. Finck, *op. cit.*, p. 42.

[2] H. W. Wolf, *People's Banks* (fourth edition, London, 1919), p. 89.

[3] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1918.*

loans. The total volume of such unsecured overdrafts at the close of 1918 was only 33 million marks, a sizable sum, but tiny in comparison with the secured overdrafts which amounted to more than 565 millions. The nature of the security given for these overdrafts, however, is such as to give considerable warrant to the custom of calling them "character credit." The security is not property, but the written guaranty of one or more, generally two, neighbors. Almost never do these neighbors demand special legal protection from the men whose borrowings they guarantee, and the bank normally makes no special demands on them. The bank depends on the honor of the borrower and his two guarantors. The guarantors depend entirely on the honesty, thrift and reliability of the borrower. In a very real sense, then, these loans on *Konto-Kurrent* are genuine "character credit."

The period for which a loan should be allowed to run has occasioned much discussion. In the Universal Federation this period is usually set at three months. But extensions are fairly common. The report for the various associations of this type in 1912 showed that extensions to the amount of 997 million marks had been granted during the year.[1] This is to be compared with 3988 million marks of new loans granted during the same period. Presumably the figures for loans outstanding at the close of the year, if available, would show about the same proportions, though naturally the totals would be much smaller. Extensions may therefore be estimated at about one-fifth of the total.

Finck states that these people's banks usually require the repayment of one-tenth of the original loan when they grant extensions.[2] But this practice is certainly not uni-

[1] *Jahrbuch des Allgemeinen Verbandes für 1912*, p. lxxvi.

[2] R. Finck, *op. cit.*, p. 43.

versal among the Schulze-Delitzsch banks. It was, however, the general Schulze-Delitzsch ideal not to lend money for periods longer than the notice required of depositors before withdrawal. When compared with American banking practice such a rule seems excessively conservative and even unprogressive. The policy of requiring part payment of the principal of the loan on each renewal date when loans run for such short periods in the first instance, in so far as this policy is common among the people's banks, certainly does have the effect of keeping the debtor's obligation constantly before his eyes. Besides this, it is sometimes easier to pay off a debt in this fashion than it would be to pay it back in one lump sum at the end of thirty months, assuming for the moment that the loan would be allowed to run so long. Probably the greatest effect of this policy has been to increase the use of cash credits or overdrafts where the borrower has, within limits, rather greater freedom, and to reserve the use of negotiable instruments for those exceptional cases when exceptional care is needed in any event.

The maximum amount which may be lent to any one member is set by the by-laws of each society. During the earliest years of the bank at Delitzsch this permissible maximum was fixed at fifty Thalers ($37.50). By 1855 this limit had been increased to 200 Thalers ($150.00). By 1900 there were many people's banks (probably a considerable majority) whose by-laws would permit the management to lend as much as 10,000 marks ($2500.) to one member. By 1906 there was one Schulze-Delitzsch society in Berlin in which the management under certain restrictions might make loans to one person totalling $125,000 (500,000 marks).[1] But it must be remembered that these

[1] R. Finck, *op. cit.*, p. 344.

limits are naturally set far above the average granted, and, furthermore, that this one cooperative bank in Berlin was distinctly exceptional. The total loans of all these organizations outstanding at the close of 1900, when divided by the number of members, gave an average loan of less then $300. per member.[1] Of course in any one year many members (approximately half in fact) do not borrow at all. Therefore the average line of credit is considerably higher than $300. In 1918 the total loans outstanding divided by the number of members who had received loans at some time during the year was about 5300 marks. Allowance must then be made for the fact that many members who borrow during the year are not in debt to the bank at the close of that time. Thus the average line of credit granted members in 1918 had grown to an amount that was certainly not less than 6000 marks, but the significance of these figures is of course greatly injured by the current inflation.

Fixing the rate of interest, naturally, has always involved a conflict of desires. It brings out sharply the difference of opinion which has already been suggested in the discussion of dividends. The members' interests as receivers of loans are directly opposed to their interests as share-holders and receivers of dividends. Schulze-Delitzsch decided that in an organization free from charity members ought to pay not simply the market rate of interest. They ought rather to pay enough to cover (1) the interest the society was paying depositors, (2) the costs of management, and (3) possible losses. In the first union the interest offered to depositors was five per cent. The costs were estimated at 3%. Then after allowance had been made for possible losses, members were required to pay on their borrowings an average rate of 14.3%.

[1] *Jahrbuch des Allgemeinen Verbandes für 1912*, p. lxxii.

This rate was probably not excesssive in view of the circumstances of the society and of its members at that time. Naturally, as time went on, and as the society prospered, its rate of interest fell. By 1855-56 it was down to 10%. By 1860-61 it was 8% and by the close of the century it averaged from 5% to 7%.[1]

In this connection it must be remembered that the prime purpose of the society never was to secure for members loans at especially favorable rates, but rather to secure for members at ordinary rates if possible, loans which they could not otherwise secure at any price. Before these co-operative banks were organized some of these men were paying money-lenders 5% a month, and Schulze-Delitzsch cited one case of a loan at the rate of 730% a year. Even at the close of the last century when other sources of capital were far more readily available than in 1850, there could be little doubt about the fact that at 5% to 7% members of these banks were securing short-term loans more readily than they could have done otherwise. The Schulze-Delitzsch people's banks were doing their job.

[1] R. Finck, *op. cit.*, p. 45.

CHAPTER XI

The Structure of a People's Bank

The preceding chapter was confined to a description of the financial plan and of the work or functions of the Schulze-Delitzsch bank. It is desirable also to know something of its organization or structure.

Democratic self-government was the fundamental principle of Schulze's first bank. Originally this meant that almost everything was managed by a meeting of all the members, known as the general assembly. As time went on and business grew more complex as well as more voluminous, it became necessary to delegate a very considerable amount of authority to subordinate bodies. Thus at the present time the internal organization of many Schulze-Delitzsch cooperatives has departed very far from the original simple democratic ideal. But very considerable remnants of this original idea are still to be found in one form, that of local self-government. The general organization of the Schulze-Delitzsch movement has little authority over the individual banks. There are requirements for membership in this general organization, but these requirements are of the most general character only and no bank is under any obligation to become a member. Thus there is local autonomy. Subject only to the law of the realm, each bank draws up its own articles of agreement or constitution. Subject to these articles of agreement or constitution, each is governed in the last analysis by its own general assembly or members' meeting.

Within the rather liberal limits set in this fashion the structure of the various Schulze-Delitzsch people's banks has varied considerably. The structure of the average bank has shown, however, a fairly steady tendency toward an increasing complexity, and with it a steadily increasing concentration of authority in the hands of the officers.

During the first few months of the life of the first Schulze-Delitzsch bank, its organizer found it advisable to subordinate immediate efficiency to the task of interesting and educating its members. This he did by having many of the bank's functions performed by all the members together in order to make members realize their liability for the society's obligations. For example, the bank's passbooks and promissory notes were at first countersigned by all members. The officers were allowed to sign for small amounts only or for short periods. But as the number of members and volume of business both grew, this soon became impossible.[1]

Even at first, however, there was a so-called "committee". A by-law passed in the year 1853, that is, after the union had been in operation only a year, prescribed that "all demands and propositions made to the union, particularly requests for loans, must be presented to the committee in writing. The committee is to decide on these matters in its meetings, is to provide for securing the capital necessary, the collection of what is due and is to keep business going in an orderly fashion. For the despatch of current business there shall be each week a regular meeting of the committee."

This "Committee" consisted of the president, the treasurer, the secretary and nine members. For the more convenient despatch of routine business there was a

[1] R. Finck, *op. cit.*, p. 47 *et seq.*

" smaller committee " consisting of the three officers. But for all important business such as admitting new members, borrowing money or making loans, it was necessary to secure the approval of the whole committee.

The officers of this first union included in the first place Schulze-Delitzsch as president and manager. In this capacity he presided (1) at meetings of the " smaller committee " of officers, (2) at meetings of the full " committee " and (3) at meetings of all members. The second officer was the treasurer, who was at one and the same time cashier and book-keeper. The third officer or secretary was also the auditor and was charged with a supervision of the treasurer's work. To prevent possible collusion between these two and to keep the control in the hands of the committee, the treasurer was prohibited from paying out money except upon an order signed by the president and one other member of the " committee."

This " committee "' corresponded pretty closely to the board of directors of a modern American corporation. The smaller committee of officers in some respects corresponds with the " executive committee " or " finance committee ", as it exists in many of our corporate enterprises. The difference between the two lies chiefly in the composition of Schulze's " smaller committee ". It is not customary in this country to have such an executive committee consist exclusively of the officers who are in active charge of the business. Such was the case in this first Delitzsch union and such has remained the case throughout most of the Schulze-Delitzsch movement. But this contrast disappears if we compare, not the membership, but the work which the committee had to do. To a very considerable extent the work of this " smaller committee " was that which would in an American corporation be entrusted to a general " executive committee ". Finally, decision on most important

matters lay, not with the committee, but with the whole board. But to the committee was entrusted the general task of seeing that the business was properly operated and preparing recommendations for the larger "committee" or board of directors.

To Germans this method of organizing a bank seems inefficient in that it does not separate supervision and management. They feel that a management which was vested in a large committee or board would either be slow and ineffective or the work of the board would in fact be done by a smaller group whose real authority would then be greater than their responsibility. Supervision on the other hand would also become ineffective because the people who were to do the supervising were the same people who were responsible for the management. For this reason the supervision and management of German corporations are, in legal theory at least, sharply separated.

Toward such a separation of functions the German cooperatives also tended as their business grew larger and more complicated. This change was finally recognized in the German cooperative law. Therefore to understand a Schulze-Delitzsch bank at the present time it is necessary to understand at least six institutions. These six institutions are (1) German statute law; (2) the constitution and by-laws of the particular cooperative society; (3) the society's general assembly; (4) the society's board of supervisors; (5) its board of officers, and finally (6) its minor officials and committees.

The evolution of statute law may be briefly summarized here. In 1863 Schulze launched his campaign for a statute which would, among other things, give his organizations a corporate entity with the right to sue and to be sued. His campaign led to the enactment of the Prussian law of March 27, 1867. The first statute was adopted by the North-

German Confederation July 4, 1868 and went into effect January 1, 1869.

About seven years later Schulze began to feel that some amendments were desirable. For some time little was done; but during the months immediately preceding his death in 1883, he put his proposals into book form. These proposals included permission to organize societies with limited liability. Ultimately they largely influenced the epoch-making law of May 1, 1889.

A third statute was passed on August 12, 1896. This third law, however, was chiefly concerned with other forms of cooperative activity. Finally, the introduction of a new commercial code in 1897 made necessary another revision which was promulgated by the German Imperial Chancellor on May 20, 1898 as a fourth law which then went into effect on January 1, 1900.[1]

In this outline of the legislation no attempt has been made to compare the provisions of the various statutes. It will be in most cases more convenient to study briefly the various regulations in connection with the institutions regulated. Only two exceptions to this policy must be made.

In the first place it must be remembered that for nearly a generation these organizations were subject to no special statute, and had no special protection from theft or fraud. Their legal status at this time would perhaps correspond most closely to that of "voluntary associations" under our common law. If one faction should happen to secure a majority at a meeting and divert the funds in a fashion injurious to the others, these others would be substantially helpless because the association could sue only when all members joined in the suit. This condition has now been remedied for those associations which come within the

[1] W. Wygodzinski, *op. cit.*, p. 32 *et seq.*

statutory definition of cooperative societies and also elect to register and assume the obligations of registered cooperative societies. The statutory definition was made sufficiently liberal. It included every association which possesses the following three qualifications: (1) whose membership is not restricted to any particular number, (2) whose purpose is to further the business interests of its members, and (3) whose method of accomplishing this is that of carrying on some business on joint account. This definition of course excludes on the one hand unions whose aims are idealistic, and, on the other, corporations and partnerships. But the terms of the law are so generous that practically only two groups of cooperative societies have failed to register. In the first place there are a very few quite large cooperative associations (mostly rural) whose business is so complex and varied that not all parts of it can be fitted under such a definition. These then have not registered. In the second place, there are a great many small or temporary cooperative societies to whom registration seemed only to involve added trouble and expense. These also have failed to register.[1] No special restrictions are laid down for these unregistered cooperative societies and no society is compelled to register. The first aspect of the statute then is wholly benevolent.

The second aspect of the statute applies only to those associations which elect to register. On these it imposes the compulsory biennial examination.

This requirement of regular examination was imposed only after various leagues had been conducting such examinations for nearly a quarter of a century. Thus the statute as finally passed makes examination by an official appointed by a league registered for that purpose the standard

[1] W. Wygodzinski, *op. cit.*, p. 34 *et seq.*

form of examination. Leagues are admitted to registration for this purpose on two conditions: (1) their constitutions must make satisfactory provision for the appointment of examiners and for the nature of the audit that is to be conducted by them; (2) they must give evidence that they really are in a position to conduct such examinations properly. Leagues may also be deprived of their registration on two conditions: (1) if they break the law, as, for example, by engaging in business on their own account or by engaging in any pursuits other than those specifically permitted to audit-leagues by the statute; (2) if they fail to perform properly their duty of audit and examination.

For those cooperative associations which register under the law but join no audit-league—and there are over 3000 of these—the law prescribes a different method for the appointment of examiners. In these cases it becomes the duty of the board of officers to apply to the state court for the appointment of an examiner. It is the duty also of this board to nominate men for this position. When finally one of these nominees seems satisfactory to the higher officials on whom this duty devolves, the court commissions him to do the work. The examiner is legally entitled to receive from the association audited a fee and reimbursement for any money he may be compelled to expend in making the examination. The board of officers is required to give the examiner free access to all the property and records of the association. The board of supervisors is required to assist in the examination. And the examiner's report must be presented to the general assembly. On completing his work, the examiner gives to the board of officers a certificate to this effect which they in turn are required to have filed in the public records.

Examination by auditors appointed in this unusual fashion is generally regarded as less satisfactory than ex-

amination by league auditors. The men secured in this unusual fashion are under no pressure to hold down their expenses, though their fees may have been agreed upon before their nomination. Practically never are they so skilled as the league-auditors. It is difficult to find either a business man or a public official who knows the technical as well as the accounting side of the cooperative's business. Practically never are the auditors appointed in this unusual fashion so interested in making their examination effective and useful. Only league audit, for example, could give rise to comparisons such as the following study of 182 (rural) cooperative societies in Brandenburg.[1]

	Excellent	*Good*	*Fair*	*Poor*
Comptroller	8	100	67	7
President	5	73	93	11
Board of Officers	1	55	113	13
Board of Supervisors	3	51	103	25

Only in the case of league-audit does the examiner return each year with some knowledge of the particular weaknesses to be looked for and to be guarded against.

But this criticism is perhaps small in comparison with the next, a criticism which applies to examination of both the league and unusual type. After the examination has been made and its results communicated to the board of supervisors and the general assembly of members, no more is required. No matter how serious are the defects discovered, neither the auditor nor any public official has the right to intervene and set things right. The audit-league may of course expel a member association, but such a cutting-off of its own income is likely to occur only in extreme cases. And even in those extreme cases expulsion does not remedy the defect nor protect the individual

[1] W. Wygodzinski, *op. cit.*, p. 95.

member of the mismanaged association. It is the theory of the German statute that sufficient safeguards have already been set up within each cooperative association. Any further interference by the government or by any outside body would merely cause a loss of interest and of a sense of responsibility in those whose duty it is to keep things right. Thus the German law-makers felt that the last state of the cooperative movement might be worse than the first.

To remedy the defects in the present system of audit many plans have been offered. Havenstein has proposed that the compulsory examination content itself with merely certifying that the cooperative has not broken the law.[1] Thus all problems are left strictly to members. This would give the cooperative a position more like that enjoyed by business corporations in Germany. On the other hand, Fassbender, the noted leader in rural cooperation, has suggested that there should be two compulsory examinations, one by a trained accountant and one by a man trained in the technique of the business in which the association is engaged. The objection to Fassbender's suggestion lies in the fact that the technical examiner would virtually be compelled to go over most of the books and papers examined previously by the accountant. The expense, therefore, might be nearly twice as great as that involved in the present system. At present neither suggestion seems at all likely to be adopted. That Germans are pretty well content with their present system of audit is shown by the fact that the statute gives to the Imperial Chancellor the power to draw up additional regulations respecting the manner of examination, the form of the report, *etc.* This power he has never used, but has preferred to leave each league free to prescribe that method of examination which is thought best and to leave the

[1] W. Wygodzinski, *op. cit.*, p. 96.

court-appointed auditors at liberty to struggle along in whatever fashion they could.

The cooperative statute thus provides for compulsory investigation but for no corresponding compulsory process of reform. It has been the policy of the government to give to these banks the greatest possible freedom. Reform, if forced upon the bank, must be forced by individuals or by other bodies within the association. For all practical purposes, then, this policy has tended to emphasize the importance of the other five institutions which combine to make up the people's bank, and to these we must now turn.

The second of the institutions which must be studied in order to understand the structure of the people's bank is its constitution and by-laws. For the most part these may be amended only by the general assembly. For those societies which now register under the law, most of the important provisions of the constitution may be amended only by the votes of three fourths of those present at the meeting. Furthermore the society is left free to make amendment even more difficult. This may be done, for example, by requiring a large quorum to be present before the amendment may be voted on, or requiring that the amendment must be passed at two successive meetings.[1] At first, however, there was of course no such legal restriction.

The chief provisions which have normally appeared in the constitution and by-laws have been:

(1) Name and location of the society.
(2) The purpose of the organization.
(3) Manner of holding the general assembly.
(4) Manner of publishing official notices to members.
(5) The extent of a member's liability for the debts of the society (since the legal introduction of limited liability).

[1] W. Wygodzinski, *op. cit.*, p. 46.

(6) The size of the shares and the manner of paying for them.

(7) Manner of auditing and publishing the annual balance sheet.

(8) The reserves.

(9) Description of the geographical area to which the business transactions of the particular cooperative association are to be limited.

(10) Making the continuance of membership depend upon continued residence in the prescribed locality.

(11) Fixing the society's fiscal year.

(12) Prescribing the extent to which the society's officers may do business with non-members.

(13) Prescribing the method of amendment. In particular it has been customary to specify in detail which by-laws the general assembly might change through a simple majority vote and which by-laws might be amended only with the approval of something more than a majority.

The general assembly, our third institution, is theoretically the source of all authority.[1] This perhaps seems strange when there have just been pointed out such serious limitations on its authority as some of the provisions given above. But the peculiar position of the general assembly in this matter can best be understood if it is realized that its decisions may be reversed only by legal procedure. If the general assembly by vote violates the society's constitution, that vote is still binding on the officers and the society until such time as it may be set aside through the slow machinery of the law. Furthermore this right of appeal to the courts has now been limited. Not every member who is injured by the bank's change of policy may sue, but only the following eight classes of people:

[1] W. Wygodzinski, *op. cit.*, p. 76 *et seq.*

(1) Those members who were present at the meeting in question and had their protest against the motion recorded in the minutes of the meeting.
(2) Those members who tried to be present but were unlawfully excluded from the meeting.
(3) Those members who were absent because they were not properly notified of the meeting.
(4) Those members who were absent because they were not properly notified of the purpose for which the meeting was to be held.
(5) The board of officers because they, by carrying out the assembly's decision, might become subject to legal penalties or jointly liable to the bank's creditors.
(6) Individual members of the board of officers, for the same reason.
(7) The board of supervisors because they, by permitting the decision to be carried out, might become subject to legal penalties or joint liability to creditors.
(8) Individual members of this board of supervisors.

Even after a litigant proves his standing and his right to prosecute a suit, the courts will not question the wisdom, but merely the legality of an assembly's decisions. Thus although the law has regulated the cooperatives to a very considerable degree, it still tries to keep in principle to the original basic idea: self-government through a general meeting of all members.

The cooperative's character as a self-governing body of neighbors is also emphasized in another direction by the rule, long current but now reenforced by the authority of the law, that each member should have but one vote. This principle of only one vote to a member is applied, no matter how many shares the member may hold, and regardless of the extent to which it may be one member's property that gives the whole association standing and credit. Further-

more, to insure a genuine democracy members may not exercise this right through proxies. But this prohibition of proxies is subject to several exceptions. Corporations and associations on the one hand, and minors on the other, may not vote. These disqualified members have the right to be represented by proxies, but no other proxies are allowed. Even in these permitted cases no man may hold two proxies. Thus the cooperative form of organization prevents the situation so common in the annual meetings of joint-stock corporations where one man will often appear holding proxies for a large majority of the stock and the meeting becomes a mere formal ratification of this proxy-holder's will. In the cooperatives there has been a real effort not simply to secure the benefit of the interest and intelligence of each member, but also to achieve the formation of a group opinion by discussion.

Meetings of the general assembly are held on the call of the board of officers or of the board of supervisors. Furthermore they must be called upon the petition of one tenth of the membership. Before the meeting is held, each member must be given notice at least one week in advance. This notice must include a statement of the business to come before the meeting. This statement of the motions to come before the meeting must now reach members at least three days before the meeting itself; otherwise the assembly's decision is not binding. But there are three exceptions to this rule. Motions of the following types are valid even though not included in the formal notice: (1) the regular order of business, if that is prescribed in the by-laws; (2) motions which decide only the conduct of the meeting, not the conduct of the society's business; and (3) the motion to call another general assembly.

Under the present German law the General Assembly has the right to determine a large number of matters. These include:

(1) The choice of members of the board of supervisors, and usually of the board of officers as well. Under the present German law supervisors may under no circumstances be chosen in any way other than by the general assembly.

(2) The dismissal of members of the board of supervisors. Members of the board of officers also may be dismissed by the general assembly and by them alone, but the officers may also be temporarily suspended by the board of supervisors.

(3) Regulating the right of officers to appoint deputies to perform their duties for them. Such deputies are occasionally necessary, but it is important to restrict their choice for a bank may be wrecked as easily by an incompetent deputy as by an incompetent officer.

(4) The decision to sue members or former members of the boards of supervisors or officers.

(5) The creation of new administrative departments.

(6) The dissolution of the society, if that seems advisable.

(7) Limiting the extent to which the bank's officers may lend the society's funds to any one member. This limitation of the maximum loan is not unlike in theory the limit prescribed for national banks by American law. It is based, not on an estimate of the richest member's ability to pay, but on a desire to remove from the management some of the temptation toward favoritism and excessive risk.

(8) The limitation of the extent to which the society may borrow money whether in the form of loans or savings deposits. Thus it may be possible to preserve a proper ratio between owned capital and other liabilities. In dealing with such a bank a creditor need not, however, investigate these decisions of the

general assembly nor inquire into the extent of the bank's liabilities. As to outsiders the signature of the officers is binding upon the society. But officers in turn become liable to the society for violations of the by-laws. Hence arises the importance of the power of the general assembly to sue its officials.

(9) The determination of dividends.

This final duty is one that merits some attention. As has been pointed out, this determination of dividends has been the source of many disputes, one of which has been of such importance that it has already been discussed in another place. But even after a general policy of dividend distribution has been decided upon, there remains always the question, how much? Many members will of course be disposed to underestimate future risks and to divide at once every cent possible. Luckily for the cooperative movement, its officers in recent years have pretty uniformly opposed this to the extent of their ability. The custom of paying officers a percentage of the net earnings has worked for conservatism.

Excessive dividends are not now common. At the close of the year 1911 for example, over 900 Schulze-Delitzsch banks reported their dividends. Of these only two distributed more than 10 per cent on their shares. 349 societies distributed 6 per cent, 231 gave dividends at the rate of 5 per cent while 124 distributed 7 per cent on their members' investment. On the other hand only 14 of those which distributed any dividends at all, distributed less than 4 per cent. It may fairly be said to be the custom to pay dividends of 5 to 7 per cent. These figures refer, of course, to dividends distributed, not to net profits earned.[1]

[1] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1912*, p. xcii *et seq.*

Nor may the General Assembly with its untrained voters be said to have erred in the direction of excessive dividends if we measure, not the absolute height, but the ratio of dividends to net earnings. In 1911 the profits of cooperatives belonging to the Schulze-Delitzsch league were 21.9 million marks. Of this amount approximately 7.2 millions were set aside by the assemblies as surplus, 12.8 millions were distributed as dividends, about one quarter of a million was spent on education, the balance was devoted to a number of miscellaneous purposes.

This failure of the members to take any unwise advantage of their power might indicate great intelligence and self-control on their part. Or it might indicate the fact that individual members had very little influence on the actual conduct of affairs. It probably indicates both. The people's banks have been of enormous educational value. But it is also true that in some of them the ordinary member is far removed from the administration.

One Schulze-Delitzsch bank, the Agricultural Credit Union of Augsburg, had 11,857 members in 1911. In a group of nearly twelve thousand people there is very little chance for much personal contact among members. The officials and a few other distinguished members could alone be widely known in a group so large. They alone could have much influence. The ordinary member would be unknown, and probably without much influence even if he were to speak in the general assembly. Furthermore, the affairs of such a bank with its capital and surplus of more than 2,750,000 marks and its loans to over 6,000 members are too complex to be mastered by the ordinary member who is busy about other things. Under these conditions the ordinary member might well hesitate before opposing the officer who must within a few days pass upon his application for a loan. The general assembly in many of the

larger unions now has a regular meeting but once a year. Even this meeting is often but slimly attended.[1] Wygodzinski even speaks of the danger that the general assembly may become as farcical as the annual meeting of a joint-stock corporation.[2]

The cooperative banks were originally designed as democracies. With their success in this form many of them have become too large to be successfully managed as pure democracies. American politics is not the only field from which there may arise a "boss". Some of the more thoughtful cooperative leaders are therefore now discussing representative government within the cooperative society. This proposal has taken the definite form of a suggested "Cooperative Council" or "House of Representatives" for each of the larger people's banks. This proposal was tested out judicially in 1910 and declared lawful. The details of this plan do not interest us. The "Council" is not important as an historic fact, but rather is interesting as a comment on one tendency in the development which is now going on within the general assembly.

But it is not safe to assume that all people's banks have outgrown the possibilities of pure democracy. In the report of the general Schulze-Delitzsch movement people's bank number 1 is the great society in Augsburg cited above, the largest of the Schulze-Delitzsch banks. But people's bank number 2 is the Loan and Savings Union in Dillingen a/D. Bavaria with but 85 members and of whom but forty borrowed. In such an organization a pure democracy with a genuine control by the General Assembly is still possible.

Schmoller, commenting on this situation, points out that the larger the union, the less influential will be the general

[1] R. Finck, *op. cit.*, p. 49.

[2] W. Wygodzinski, *op. cit.*, p. 81.

assembly, while the more influential will be the management. Therefore not all the cooperatives show this tendency toward centralization to the same extent.[1]

Bernhard in his book on *The Polish Question* (Leipzig, 1910) pointed out another factor which might weaken the position of the General Assembly. In German Poland political considerations caused a considerable portion of the power usually exercised by the General Assembly to be transferred to the board of supervisors, and this board had been correspondingly enlarged, so that it rarely contained less than nine members.[2]

This board of supervisors which Bernhard mentioned now forms the fourth institution which is essential to a Schulze-Delitzsch bank. It may consist of as few as three members but usually contains nine, and sometimes even more. The members are elected by the general assembly for a term of three years, with the elections so arranged that one third of the members retire each year.

The duties of this board include watching over all of the bank's affairs and controlling the officers or actual administration. To enumerate these duties more specifically, we find that the board of supervisors elects its own chairman. It may be present at meetings of the board of officers and usually does meet with them once a week. It may inspect books and property. It must take part in the regular annual audit of the bank's affairs. It must approve the bank's statements and any proposals for the division of profits. It must specifically approve any loans to officers or any loans where the necessary guaranties are furnished by officers.

Furthermore, the by-laws usually delegate to this board

[1] *Cf.* R. Finck, *op. cit.*, p. 49.

[2] *Cf.* W. Wygodzinski, *op. cit.*, p. 83.

the duty of admitting new members. Usually before admission two members of the board investigate the candidate independently of each other. It is their duty also in the larger banks to examine periodically the record and circumstances of all members. The results of this examination are compiled in a "credit-list" which sets for each member the limit beyond which officers may not go in extending credit. In the smaller unions there is naturally rather less machinery. In them it is customary for each loan to be finally approved by the board of supervisors after being recommended by the officers.

Finally the board of supervisors has been given a legal hold on the entire administration by the statutory grant of authority to suspend all officers and to operate the bank for a short period. In this case it must call a general assembly without delay. But it is also given the power to call a general assembly at any time. Its responsibilities thus are very great. The board of supervisors differs from the board of directors in an American corporation in that it can not act independently (except for the limited period mentioned above). It may prevent the granting of loans, it may not grant them itself. It may prevent expenditure, it may not spend. Initiative is reserved to the board of officers. The supervisors alone may not bind the society.

The board of supervisors differs from the board of directors of an American corporation in another way as well. There is a more effective machinery for holding them to account. Supervisors may be recalled from office at any meeting of the general assembly by a vote of three-fourths of those present.

In addition to the above provision, there is the legal liability of supervisors to the bank for any damage which arises because of their neglect. Under the law supervisors are required to exercise the "care of an ordinary business-

man". Should they fail to do this, and should the bank suffer because of this neglect, they are personally liable for the damage. Not only are they responsible for any damage because of their own neglect, but each member of the board is responsible for the neglect of any other member. They are jointly as well as individually liable. This joint and several liability for any loss suffered because of their neglect to use the "care of the ordinary business man" sounds like a pretty complete protection for members. But the extent of this protection depends obviously upon what particular things the courts believe an ordinary business man would always be careful about. Perhaps it is because German judges have been so distinctly professional rather than business men that they have not been very familiar with business practice; perhaps it is because they desired so to define the rule that it would be easily enforcible; perhaps they desired to encourage men to assume these positions. At any rate some fairly obvious cases of neglect of good business practice have been allowed to pass. The care required is not very great. But the law does seem to cover cases where a supervisor has in any way benefited personally from this neglect. Thus while not overstrict in its application this requirement has in practice been substantially more exacting than are the requirements of American common law with respect to the responsibilities of corporate directors.

Finally, members of the board of supervisors may not lawfully receive commissions or any income proportioned to the yearly profits. It is the intention of the law to interest the supervisors in conservatism and safety, not in profits.[1] Profits are the concern of the officers. But the supervisors may be paid. Finck says that "the coopera-

[1] W. Wygodzinski, *op. cit.*, p. 74.

tive board of supervisors is chosen by the general assembly from the ranks of its most-well-to-do, most intelligent, most distinguished and most generally respected members" and again "the position of a member of the board of supervisors is an honorary position, an honorary position in spite of the fact that much anxiety, labor, self-denial and even legal responsibility as well are attached to it."[1] But it does not seem to be so universally true as this would imply that the members of the board of supervisors are the richest members, though doubtless their average wealth is higher than the average wealth of other members. Still less is it true that the office is honorary only. While the salaries of members of this board are not excessive, some are substantial and it is certainly true that they are usually paid something at least. Any other course would be contrary to the general Schulze-Delitzsch rule, "Value for value; service for service."

Men may not serve as supervisors and as officers at the same time for the obvious reason that there would then be no check on their conduct. But the supervisors are the people who, aside from the officers, know best the affairs of the bank. Thus in case an officer is sick or away, it is frequently found that the man best qualified to serve as his deputy is one of the supervisors. It would be folly to throw away the services of the man best qualified to serve. Thus the board of supervisors is allowed to appoint one of its number as deputy, but only for a short period. During this time the deputy may not serve as supervisor, nor may he return to that position until his duties as officer are completed and his accounts have been audited.

The final question to be considered is again how satisfac-

[1] R. Finck, *op. cit.*, p. 51.

[2] *Cf.* also Herrick and Ingalls, *Rural Credits* (New York, 1915), p. 278.

tory the whole arrangement is. Germans feel that its greatest weakness lies in the fact that the supervisors, because they meet with the officers so frequently, begin to like them and to trust them. Then personal friendship prevents them from feeling that distrust in the management and its judgment which is supposedly the supervisor's chief virtue. It is because the board of supervisors was so far from being an automatically successful organization that the compulsory audit was introduced by statute law. It is safe to say that if the boards of supervisors were perfect there would be no need for either the required audit or for the educational work of the auditing leagues. If the board of supervisors were perfect, there would certainly be no need of discussing the wisdom of creating the additional " Representative Council ". But because it is not perfect, it does not follow that it has not been on the whole a useful and perhaps even a moderately successful body.

After the board of supervisors, the next institution which requires special consideration is the board of officers. This is the sole organization which may execute contracts that are legally binding upon the cooperative. With only those exceptions which have been already noted, it is the sole legal representative of the cooperative society.

In case the officers make contracts which are contrary to the will of the general assembly or of the board of supervisors, those contracts are still binding upon the organization. Even specific prohibition of such action does not invalidate the contract. Furthermore, the fact that this board consists usually of men who are present at the bank every day, gives to this board in a very real sense its position as the representative of the union.

The utterances of its members are popularly quoted as the opinion of the bank. The board of officers is held responsible for the proper conduct of the business of the bank, for pre-

paring its reports and for summoning the general assembly (except in the unusual cases already mentioned). It is their duty to make available to members at least a week before the regular annual meeting a detailed report on the business of the preceding year. It is their duty to file with the proper authorities the regular legally-required reports on membership, changes in by-laws, official reports and the like. It is their duty to see that the requirements of the statute on cooperative societies are carried out. In fact the board of officers is held responsible for the regular conduct of the society by the law, by the cooperative league and by the members themselves. So far as the general public is concerned, the board of officers is the bank.

The great amount of power which the members of a Schulze-Delitzsch cooperative are thus compelled to confide in their board of officers makes the choice, the education and the proper motivation of these officers matters of great importance. In addition to striving to secure efficiency in these ways, however, there have been devised also some direct legal methods for holding these officers to account.

In the first place failure to use reasonable care makes the officer, like the supervisor, personally liable for any loss accruing to the bank. In the second place, this liability is joint. The negligence of one is legally the fault of all. Next it is customary in most Schulze-Delitzsch societies to require the officers to give bond. This bond protects the society from loss through the carelessness or the fraud of any member of the board of officers, but it does not usually attempt to protect the society from losses due to the insolvency of the bank's debtors. In the fourth place the by-laws of the society may impose certain restrictions upon the authority of the officers. For example, they might be prohibited from granting loans except upon the approval of the board of supervisors, or of a special credit committee.

Such a restriction would of course be invalid against outsiders. But violation of these restrictions would make the officer liable to the society in damages. Fifth, this liability also is joint. Each member of the board is liable for the sins of the others. Sixth, there is the power of the board of supervisors to suspend officers and of the general assembly to remove them.

Finally, there is the rule which is designed to protect not only the members of the bank, but also the officers themselves. In the absence of special provisions, all official documents must be signed by all members of the board. Cooperative banks may through their by-laws make documents binding which have been signed by a smaller number. But in no case may this number lawfully be less than two. And in the absence of specific provision the board of officers, and consequently the bank, is responsible only for those documents which are signed by all the officers.

The number of members of the board of officers varies. It may not be less than two, because of the legal requirement that at least two must sign for the board. Because of the inconvenience of appointing special deputies there would usually be at least one more, even if there were not the common threefold division of the official duties. A few banks have still larger boards.

An examination of the boards of the banks belonging to the Cooperative League of the Middle Rhine brought out the following facts. Out of 72 Schulze-Delitzsch societies, one failed to report, one board contained but two members, 63 boards consisted of three members, three societies had boards with four members, three societies had boards with five members and only one bank had a board with six members. Only one of these reported a woman holding a position on the official board. Boards consisting of two only are perhaps a little more common in other district leagues,

but in other respects these figures seem typical. Thus the normal board of officers in a Schulze-Delitzsch bank consists of three men.

These three men in the largest banks are likely to be regular full-time employees. The division of duties which Schulze worked out for his first bank in Delitzsch has been little changed except for the separation of the third chairmanship, that is, the chairmanship of the board of supervisors. At present one member usually holds the office of manager. As such he presides at meetings of this board and usually at meetings of the general assembly. Another member is usually the treasurer and a third the auditor. With a board made up of officers who are on the spot and whose signatures must be secured, one-man control would apparently be impossible. But such does not always seem to be the case. And it is a common situation in some of the smallest banks to find that the real administration is turned over to one man. However it is doubtless true that committee control is in general more genuine in the Schulze-Delitzsch bank than in the American business corporation.

Members of the board of officers are paid for their services in practically all cases. This pay may take the form of a salary, but it is more likely to be a percentage of the net profits. A fairly common arrangement seems to be to pay a small salary plus a fairly generous percentage of the net profits.

Officers are required by law to be members of the society they represent. They may not lawfully be elected for a period longer than three years. The statute further prescribes that in the absence of some specific provision officers must be chosen by the general assembly, but other methods of choice may be prescribed in the cooperative's by-laws. At the present time a very common method of selecting officers is to have them actually elected by the general as-

sembly but only from candidates nominated by the board of supervisors.

To secure efficient officers some deviation from pure democracy in their election is almost inevitable, as successful banking in these days requires specialized talents and careful training. An unwieldy body like a general assembly can not readily investigate a candidate's preparation. This is now done for them by the board of supervisors. And the latter is pretty obviously impressed with the difficulty of securing competent men from within the range of their own acquaintance, for, of late years at least, they have to a very considerable extent tried to secure candidates for office by advertising in certain newspapers. After the candidate is secured, it is easy enough to have him go through the form of becoming a member. The liability for the bank's debts which the officer thus assumes does not seem to have proved the obstacle to this process in the Schulze-Delitzsch banks which it has proved to be in cooperatives of some other types.

It is of course not always easy to find candidates capable of performing the manifold duties of an officer in a people's bank. To meet this difficulty and create a supply of such men from whom the supervisors may choose, several of the German colleges of business administration have established special courses. But it must not be too hastily assumed from this fact that every officer of a people's bank has had either special preparation or practical banking experience. Some societies still choose from their own number officers of their own social class. Even these officers seem to have done well. The record of the Schulze-Delitzsch boards in the nineteenth century seems on the whole to have been extraordinarily good. Domineering oftentimes, the officers seem none the less to have averaged high in both honesty and efficiency.

The last of these institutions which merit special descrip-

tion, has been denominated "minor officials and committees". There are three common cases in which we have extra officials. In the first place there are the larger people's banks in which naturally there is more work than could be performed by the officers alone, no matter how industrious these might be. In this case the additional employees have such duties as may be assigned to them and receive whatever pay has been agreed upon between them and the board of officers. Their position is exactly like that of an employee in any other bank.

The second case arises chiefly in the smaller societies when a technically trained man is needed for some purpose but where there is not enough work to give him regular employment. A similar condition arises when an accountant or some other trained or able man is willing to work for the bank but is not willing to assume the responsibilities of membership. Such people may be employed and assigned duties, subject however to one limitation. Their authority may not lawfully extend over the entire field of the bank's operations. But any one department or departments thereof may be entrusted to them. This particular legal problem concerning the extent of the authority which may be assigned to one not a member of the board of officers, has been far more important to a more recent type of cooperative society than to the Schulze-Delitzsch bank; but it has arisen in connection with the latter also. On the whole the German courts have been extremely liberal in their interpretation of the extent to which authority may be given such representatives, provided always that these representatives do not receive authority to perform all the functions of the bank. Authority of the latter kind may be exercised only by the board of officers.

The third case is also one which has concerned chiefly cooperatives of a different type, but has occurred in the

Schulze-Delitzsch banks quite frequently. There may be various committes appointed to do work which would otherwise fall to the officers or to the supervisors. The "Credit Committee" which appears very commonly in Schulze-Delitzsch banks, is such an institution. Such committees are so common in all organizations as to require no special description. As might be expected they may consist of both salaried and unpaid members.

Excluding from consideration for a moment the unpaid members we find that there are three kinds of salaried officials (1) salaried officials, paid members of the board of officers, (2) other officers and (3) employees. To these should be added the officers and employees of the various leagues. Thus we find that by the end of the century there was already a very considerable number of "professional cooperators". The Universal Federation of the Schulze-Delitzsch banks founded a pension insurance society for these officials. Only a small portion of the various cooperative employees probably joined, yet the income of those insured amounted in 1909 to 2,263,300 marks. Wygodzinski estimated this to mean that about 750 officials with an average income of 3,000 marks ($750) were insured.[1]

To Germans with their traditions of the cooperative society as a small neighborhood association in which each played his part, the steady increase in the number of officials seems a momentous thing. It seems to them as if the whole movement were becoming officialized. They fear that the movement may become in a sense the property of the professional cooperators. This fear is an outgrowth in part of the conduct of these officials. There can be no doubt that there is developing a genuine group consciousness among them, a sort of tacit alliance. It is not a formal thing at

[1] W. Wygodzinski, *op. cit.*, p. 84.

all. It resembles perhaps most closely the tendency of certain prominent American business men to hang together in denouncing both labor leaders and politicians. It is for the most part informal; but the tendency and the class consciousness which it implies, is unmistakable.

In a certain sense this tendency is inevitable. The German system of paying managers a percentage of the net profits together with the large genuine independence of the board of officers brings to the fore just those men and just those qualities in these men, which would be brought out by doing business on their own account. These men tend to be the kind who are keen to make money and interested in getting ahead for themselves, who are intelligent and wide awake, and who are forceful and self-assertive. With these qualities they are rather naturally the organizers and rather naturally disposed to cooperate with members against other banks for the success of their own institution, but also perhaps ready to cooperate with other officials against their own members for the success of the cooperative officials. They are good organizers and good business men.

Any one who went to Germany expecting to find officials of the Schulze-Delitzsch banks a group of idealists unselfishly denying themelves for the common good, would probably be disullusioned. But things are much better as they are. These officers now have motives which sustain an abiding interest in the bank. Percentages are not often changed and officers are usually reelected. Thus the growth and the success of a people's bank may benefit its officers very substantially. Their power satisfies their instincts for self-assertion and mastery as well as their self-esteem. To a remarkable extent the Schulze-Delitzsch system has succeeed in making each of its officers feel that the society was his personal business as much as if he owned it himself.

To an American visiting Germany the possessive attitude

of the officials would be noticeable, of course, but it is also true that members still feel that the bank is their bank in a sense which is not true of any non-stockholding borrowers whom one is likely to meet in this country.

The American's greatest difference from the German observer would be in the attitude toward the number of officials. Even if the number of officials insured were but three-fourths of the number employed, and even if all these officials came from people's banks, instead of banks and other cooperative societies, this would give us only 1000 employees for about 1000 banks. Their combined incomes probably did not exceed 4,000,000 marks or $1,000,000 a year. At the close of 1912 the 1052 Schulze-Delitzsch people's banks had 682,502 members and assets of 1,642,400,294 marks or more than 400 million dollars. To us the striking thing would be the fewness of the salaried officers.

This scarcity of officers is doubtless due in part to the kind of business which is done by the banks. Deposits subject to check, with the heavy demand for book-keeping which they entail, form but a small proportion of the total liabilities of these banks, though the use of checks is growing. Opposed to this stands the fact that clerk-hire in Germany is less than in this country. This would tend to make German banks rather readier to employ extra officials.

Probably the two most important reasons for the scarcity of employees are: (1) The members in a sense do the advertising. The expense for developing the business and for the extra service needed to stimulate growth is less necessary in a cooperative than in a commercial bank. (2) The members still do a considerable amount of the work in running the bank. American observers going to Europe have gone naturally to the largest and most successful of these banks. But it is precisely in these that the process of

handing the work over to paid officials has gone farthest. This has progressed further in the Schulze-Delitzsch than in other cooperative movements. Unquestionably the Schulze-Delitzsch cooperatives are closer to the ordinary commercial institutions than are any other cooperative institutions. But even in the Schulze-Delitzsch people's banks, the most businesslike of all the cooperatives, at the end of the century there were still some smaller cooperative societies in which unsalaried members did a considerable portion of the work. Economy and the cooperative tradition have kept this so in spite of the general Schulze-Delitzsch principle of "Value for value, service for service".

CHAPTER XII

Luzzatti and His Followers

People's banks have spread to many lands and in almost every one of them it has been necessary to make some slight modification to adapt the structure of the cooperative association either to local law or to local business needs. Most of these adaptations have been of local importance chiefly. But one of these has been of such fundamental importance as to have been copied very largely outside of the country of its origin. This adaptation now forms an integral part of the structure of many modern people's banks.[1] The adaptation which thus stands out as so fundamentally important is the series of changes which were instituted in Italy by Luigi Luzzatti.

This distinguished economist and statesman was born in Venice on March 11, 1841. His parents were Italian Jews of considerable wealth, and the young Luigi was given a liberal education. Upon the completion of his course under the law faculty of the University of Padua, he delivered there some lectures on political economy. But the views he expressed did not find favor with the Austrian police and in the years following Villafranca such disagreement was dangerous. Luzzatti left Venetia to live under the more liberal government of the new kingdom of Italy. In 1863 he secured an appointment in the Milan Technical Institute.

In 1864 he made a trip to Germany to study the work-

[1] Henry W. Wolff, *People's Banks*, p. 195 *et seq.*

ings of the Schulze-Delitzsch people's banks. The description of them which he published on his return is one of the important documents in the history of cooperation.[1] But Luzzatti was not content to deal in words alone. Late in 1864 he started at Lodi, in connection with the "friendly society" there, the first people's bank in Italy, the *Banca Mutua Popolare Agricola*.[2] This bank from the first has served a large group of farmers. Then about a year later he undertook the organization of the bank whose peculiarities and success were to establish his reputation in the banking world. The work of organization took practically half a year, but on May 25, 1866 the *Banca Popolare* of Milan opened its doors for business. Its capital at the outset was but $140.00, of which Luzzatti himself subscribed $20.00. In this first bank of the new type Luzzatti was not only the largest stockholder, but was also the whole clerical staff. Seated at a table on the sidewalk in front of the small room his bank had rented as an office, and jeered at by his friends who could not understand the reason for such a course, Luzzatti himself did, without pay, all the work of receiving deposits, making payments, lending money and keeping books.[3]

Scarcely a month after this bank began business Prussia precipitated the Seven Weeks War with Austria, whereupon Italy immediately entered the conflict as an ally of Prussia. The Italian government then passed a law which made the notes of the national bank legal tender. The national bank increased its note-issue rapidly, gold rose to a high permium and metallic money of all kinds disappeared from circulation. The disappearance of the small coins

[1] Herrick and Ingalls, *op. cit.*, p. 347.

[2] H. W. Wolff, *op. cit.*, p. 238.

[3] Herrick and Ingalls, *op. cit.*, p. 347.

produced great hardship, for there were no bank notes sufficiently small. At this juncture Luzzatti's bank offered to provide the community with small change by issuing bills of five, three and two-lire denomination, in loans on the pledge of security. The municipal council approved the suggestion. Public opinion was distinctly favorable and the printing presses were set to work. The public was served and the bank obtained not only prestige, but also a large supply of loanable funds. No wonder membership rose quickly to 1153 and its capital to more than $44,000.00.[1] The bank's earnings were sufficient to pay a dividend of 10% and to accumulate a considerable surplus as well.

The conclusion of the war ended the Austrian control of Venetia. Thus in 1867 Luzzatti received from his old university at Padua an appointment as Professor of Constitutional Law. But in spite of this early departure from the bank he had started, he could fairly count his work there as done. Though only about a year old, his bank was already well able to stand on its own feet. Luzzatti himself, sometime later, left Padua for Rome.

Luzzatti's political career began in 1869 with his appointment by Minghetti as under-secretary of state for agriculture and commerce, in which capacity he assisted in abolishing some of the more burdensome restrictions upon commercial corporations. Even after leaving office he was twice able to serve his country in connection with commercial negotiations and the tariff. Then in 1891 he was appointed Minister of Finance in the Di Rudini cabinet.

As Minister of Finance Luzzatti abolished the former compulsory system of frequent clearings of bank-notes. This action without much doubt aggravated the panic of 1893. Then, when that panic came, political sentiment in

[1] H. W. Wolff, *op. cit.*, p. 232 *et seq.*

Italy followed much the same course as in the United States. The party in power was blamed for the local manifestation of a world-wide phenomenon. Luzzatti's ministry was defeated and a new minister of finance took office in December, 1893. But in 1896 Luzzatti again became Minister of Finance in the second Di Rudini cabinet, which, however, was again driven out of office in June 1898. In 1903 Luzzatti for the third time became Italy's Minister of Finance as a member of Giolitti's second cabinet and remained in office until 1905. And finally he served in that office once more, from February until May, 1906, under the leadership of Sonnino. During this last brief term in office he successfully achieved the conversion of the Italian 5% debt into 3¾% and later 3½%. This achievement was completed by his successors, but to Luzzatti is due the credit. This refunding of the debt forms probably his greatest official achievement. But his greatest public achievement beyond doubt has been his successful amendment and propagation in Italy of the people's banks.

Italy was the birthplace of modern banking, and in the Italian cities of 1860 there were great banks and ample loan funds; but not all of the population had access to these. Among laborers and small farmers usury was rife. One instance is quoted where a group of usurers agreed to lend money in only one way, namely to sell to the borrower $10.00 worth of corn for $20.00 payable in three months. But even this rate of 100% interest for every three months was exceeded on small loans where the cost to the borrower occasionally exceeded 100% a month.[1]

It was to prevent such conditions as these that Luzzatti undertook his self-appointed task of spreading cooperation in Italy. But in attempting to transplant the German pro-

[1] Sir Frederick A. Nicholson cited by Herrick, *op. cit.*, pp. 346-7.

duct, he found it necessary to make certain modifications in its design.

In the first place Italy differed strikingly from Germany in the abundance of its banking facilities. Then the very availability of loan funds changed completely the problem of organization. Schulze for his first bank had determined upon the size of his share by dividing the members' credit-needs by the number of members. The people's bank was to supply its own funds! But Luzzatti tried only to secure a guaranty fund and a form of organization which lenders would trust.

But at this point a second difference appeared. The small business men of Italy were afraid of unlimited liability. Therefore Luzzatti was compelled to organize his bank as a joint stock corporation.

This corporate form was open to several objections. For example, when new members were taken in, it was necessary to issue shares to them without legal authority; then at the end of the year to increase the capital stock and to legalize the issue of these shares. How members might withdraw was a problem.

But a much more immediate problem lay in securing enough capital for the new corporation to make it an acceptable borrower. Thus Luzzatti decided to make the stockholders pay in their entire subscription as promptly as possible. Members of Schulze-Delitzsch banks may pay a little as twelve cents a week and spread their payments over several years.[1] Luzzatti decided to make the instalments such that all shares must be paid up within ten months at longest.[2]

Prompt payment of shares precluded the possibility of large shares. Thus it was lucky that large share capital was

[1] Herrick and Ingalls, *op. cit.*, p. 275.

[2] H. W. Wolff, *op. cit.*, p. 200.

not needed. But to give the bank even a reasonable guaranty fund, it seemed desirable to encourage members to purchase more than one share whenever possible and to get in as many members as possible. Thus Luzzatti was driven to establishing banks whose membership was larger even than the already large German prototype.

A comparison between 962 German banks and 594 Italian people's banks, made by Mr. Luzzatti himself, brought out the following interesting contrast:[1]

	German	*Italian*
Average share capital per bank [*In lire*]..	177,021	125,662
Average share capital per member [*In lire*]	315	196
Average membership per bank	561	642

Now the management of a bank with a large number of borrowing members is a far more difficult and complicated task than the control of a smaller institution. Thus the structure of the Luzzatti bank would probably of necessity have been more complex. But added to this was the fact that Luzzatti was interested in democratic control. He also desired to distribute the bank's credit as far as possible, that is, to give preference to small loans. But the small borrower pays no more than the big one. Ten loans of 100 lire each earn no more than one loan of a thousand lire. And the investigation of ten borrowers costs more than the investigation of one. Such a course of democratic lending is not likely, then, to be the most profitable possible. In the face of these difficulties, Luzzatti not only abandoned the German method of paying the officers a percentage of the profit, but he decided to make the work of management entirely unpaid. To do this complex task with officers entirely unpaid, Luzzatti devised an administrative organization that was necessarily complicated.

[1] H. W. Wolff, *op. cit.*, p. 229.

The highest authority within the bank is of course the general law of the land. In 1866 this was chiefly represented by the statute on corporations and was the bank's chief stumbling block. The second rank, as might be expected, was held by the bank's own constitution and by-laws. The third place, naturally also, was occupied by the general meeting of all members. This normally occurs but once a year, but special meetings may be called by the officers and must now be called on the request of one-tenth of the membership. One-fifth of the membership constitutes a quorum.[1] Voting by proxy is not ordinarily permitted. Each member, regardless of his stock-holdings, has but one vote.[2]

The fourth institution, however, is unique. It consists of a board of three *probiviri*. This board has no power of initiative at all. It is a court of review only, and may act only in cases of complaints. Their status is due to the fact that the law in many European countries permits associations to provide private boards of arbitration whose decisions, subject only to a few general restrictions, will be recognized and enforced by the ordinary courts of law. The people's banks were much in need of such a board of arbitration, both because the corporate form was distinctly a misfit and because it was the bank's announced policy to extend credit to all members and furthermore to give the preference to small loans if the security were good. Thus the refusal of a loan might be regarded as a denial of the borrower's membership rights or as a reflection upon his solvency and the solvency of his endorsers. Such a board of arbitration is therefore provided by the election of these three judges, or *probiviri*. Each serves for a term of three

[1] Herrick and Ingalls, *op. cit.*, p. 351.

[2] H. W. Wolff, *op. cit.*, p. 235.

years. They act only as a board, but their decision when thus given is binding unless set aside by law or by the general meeting of all members.

The fifth body is the first one actively to exercise authority. In this body, the *Consiglio,* or board of directors, is vested the final decision as to all matters in the ordinary conduct of the bank's affairs. This board in the smaller banks may contain as few as seven members; in the larger banks it may contain more than 130. The members of this board serve without pay. Their term of office is normally three years and one-third are elected each year. These elections occur at the annual meeting of all members.

In so large a deliberative body the chairman inevitably acquires considerable influence. Thus it has come about that the chairmanship of the board of directors is the most important single position within the bank.[1] This position may therefore be listed as the sixth administrative organ.

The seventh body which exercises authority consists of the board of officers or *Sindaci,* to whom is entrusted the actual conduct of the bank's affairs. Here at last we meet an active executive official. Only the signature of one of these *Sindaci* can bind the bank and it is therefore expected that one of them will always be present during business hours to represent the supreme authority. Thus in some respects the *Sindaci* are like the German board of officers. But there are important differences. The *Sindaci* are unpaid. It is, then, not expected that all of them will be present all the time, but merely that they will divide up the time among themselves so that one of them will be always present during business hours. Therefore the signature of any one of these officers is binding upon the bank.

[1] *Cf.* Herrick and Ingalls, *op. cit.,* p. 351.

Only in presenting the annual report do they act as a unit. Thus only in this one respect do they act as the German board of officers is compelled always to act. Unity between the five different policies which would normally result from this situation is secured by making the *Sindaci* not an administrative body, but merely a body of executives appointed to carry out the will of the *Consiglio*. They are then not elected by the annual meeting, but by the *Consiglio*, and have only a limited field of discretion. They have, for example, no authority to grant loans.

This vital function of granting loans is in the hands of a separate body, the *Comitato di sconto*, or discount committee. This also is a large body consisting of at least five, and usually of fifteen to forty, members. The peculiarity of its position—indeed one of the most striking peculiarities of the whole structure of the *Banche Populari*—lies in the fact that this body is not only independent of the *Sindaci*, but also of the *Consiglio*. Its members are elected at the annual meeting of the bank's members [1] and hold office for two years. The members of this committee also are unpaid. It is their duty to draw up and maintain a secret register, called the *castelletto*, which assigns, even in advance of the member's application, a limit to the line of credit which each may receive. This committee meets each week and each meeting is attended also by two members of the *Consiglio* designated for that purpose by the chairman of that body.

The ninth administrative body within the Luzzatti bank is the *Comitato dei reschi*, or committee on risks. The duty of this body is to keep track of all loans and investments, to keep a record of all borrowers and of all endorsers and to make a note of any fact which might injure their capacity

[1] H. W. Wolff, *op. cit.*, p. 206.

to pay. Its purpose is to guard against any laxity on the part of the *Comitato di sconto,* such as might involve the bank in losses. In some banks this body is omitted.

The tenth administrative body is the committee on honor loans.[1] This body also does not exist in every bank. When present, its membership is usually five and its duty is to supplement the work of the discount committee by lending that portion of the bank's funds which the members may decide to devote to unsecured loans among the worthy poor. These loans are not intended as charity, though in some cases they are made without interest. These loans are always made repayable by instalments, the last instalment being due in not more than forty to sixty weeks. Losses from loans of this kind have been larger than from the regular business, but have not been as large as might be expected. In 1890 the *Banca Populare di Credito* of Padua reported losses of 2000 lire out of loans amounting to 100,000 lire. The *Banca Populare* of Bologna reported losses of 313 lire out of 9250 lire lent out up to 1889. Other experience would imply that the average rate of loss was approximately two or three per cent. Naturally this is a type of business which no bank is eager to secure. Consumption loans probably are never good business, even though in certain cases they may achieve highly desirable moral and social results. Furthermore, as the people's banks have grown in wealth this work has become more difficult for them. Luckily, however, the idea has been taken up by trade unions and friendly societies. Where still retained by the people's banks, it has been done largely "to please Mr. Luzzatti." At no time is the volume of this business large—at least among the people's banks.

The eleventh and last administrative body consists of the

[1] H. W. Wolff, *op. cit.*, p. 215 *et seq.*

employees. Not all the banks have such an employed personnel, but the larger ones necessarily employ a very considerable staff. The People's Bank at Milan, for example, now has more than one hundred clerks on its payroll.[1] This staff in most of the people's banks is headed by a manager and a cashier. They are responsible to the *Consiglio*. The higher officials are paid by salary and by a percentage of the profits, as is common in German banks.[2] Furthermore, it is now customary to require these officials to become members of the bank upon receiving their appointment. In so far as this custom is carried out, it represents a distinct departure from the original Luzzatti principle of non-payment to any members. In fact, the growth of these Italian banks in wealth has made those of them that have become wealthy approximate more closely the Schulze-Delitzsch structure—with one great and important exception. The small German board of supervision is substantially a failure. The large Italian *Consiglio* is a success.

Lending is done as in Germany by the "cash credit." As in Germany this method of borrowing is often called "character credit" and the normal security is the guaranty of the account by two or more neighbors.

A few of the Italian banks make loans on the security of a member's stock in the bank. Some banks will even lend twice the paid-up value of a share. In spite of the very obvious objections, this practice has not as yet led to unfortunate results.[3]

The use of acceptances is far more common in Italy than in Germany. There are several reasons for this. In the

[1] H. W. Wolff, *op. cit.*, p. 7.

[2] *Ibid.*, p. 203.

[3] *Ibid.*, p. 211.

first place, the Italian law with respect to acceptances is not so severe. In the second place, postmen are authorized by law to collect acceptances on their regular rounds. Thus handling such paper is extraordinarily cheap. And, finally, the population has become accustomed to the use of this instrument. To such an extent is this true that many "cash credits" are secured by the acceptance of the borrower.[1]

It seems to have been Luzzatti's plan originally to raise money, in part at least, from the joint stock banks. But this has never been in practice an important source of funds. In 1866 for a short time the issue of bank-notes provided considerable capital. The issue of debentures was another expedient which has been tried but which has met no real success. The great bulk of the bank's resources come now from deposits, among which savings deposits have been of especial importance. To attract these, most banks pay interest ranging from three to four percent.

The interest rate charged to borrowers has varied. On some of these loans 7½ percent has been charged; on some the rate has been as low as four percent. After paying the expenses, a quarter to a third of the net profits has usually been set aside for reserves. The balance was at first distributed in dividends. Thus the average dividend on shares in 1908 was 8.34 per cent.[2] But lately some of the banks have adopted the Liège plan of distributing some of this profit as a return to borrowers on the interest paid. Such a dividend to member-customers is called *ristourne*.[3] This recent development is perhaps the most striking deviation observable in Italy from the original Luzzatti plan.

[1] H. W. Wolff, *op. cit.*, p. 213.

[2] Herrick and Ingalls, *op. cit.*, p. 353.

[3] H. W. Wolff, *op. cit.*, p. 250.

A small amount has been lent to farmers for periods rather longer than the usual commercial loan. Where this has been done, it has been customary to require borrowers to state the purpose of their loan. But the experiments in long-term loans to farmers have been no more satisfactory than the sporadic efforts to lend money to tide over the immediate difficulties of the deserving poor. The difficulties in lending money to farmers are of an entirely different kind, but they seem to have been almost equally prohibitive. In fact, the general structure of the people's bank seems poorly adapted to work of both these kinds. It is really well adapted to but one purpose, and that is making small short-term loans to those business men whose accounts are so small that the ordinary joint stock bank will make no great effort to accommodate them. But within this limited field they have been an extraordinary success.

The brilliant success of Luzzatti's bank at Milan, together with the generous interest of the friendly societies which were already well developed throughout Italy, awakened a good deal of enthusiasm for the new cooperative movement during the years following the Seven Weeks' War. Other banks of the same type began to be formed. The number increased slowly but steadily. By 1882 there were 206 such banks with an aggregate membership of 114,072 and a total capitalization of about $10,000,000.

Then starting with 1883 there came a "flowering season." By 1889 the number of people's banks was 714, with more than $20,000,000 capital. By 1893 there were 730 such banks. Of these, 662 voluntarily sent in reports and these reports showed a combined membership for these reporting banks of 405,341.[1]

[1] H. W. Wolff, *op. cit.*, p. 227.

The reason for this sudden growth of more than threefold is to be found in a change in Italy's statute law. During all these early years the banks had been handicapped by the fact that they had been compelled to adopt the legal form of a joint stock corporation. And some of their activities then, though not prohibited by law, were without legal sanction. This situation was remedied when the new commercial code, which went into effect January 1, 1883, provided for the cooperative association as a legally recognized form of business organization. The provisions of this code have been summarized by Herrick and Ingalls as follows:[1]

According to this code, as amended from time to time, cooperative associations may be organized with or without share capital, and may be based on either limited or unlimited liability, or liability limited as to some members and unlimited as to others. They may be created by filing a sworn organization certificate, which must show the conditions for the admission, withdrawal and retirement of members, and the manner and times of payments on shares subscribed for. It must show also the method of calling meetings of the members and designate the newspaper to be used for publication of notices, *etc.* If a society has unlimited liability, the officers must file at the tribunal of commerce every three months a list of its members, showing all who were admitted and retired during that period. Shares having a value of over $20 cannot be issued. No one may hold more than $1,000 of shares, or belong to two or more credit societies at the same time. Members are responsible, according to the form of liability assumed, for all obligations contracted by a society up to the day of their retirement, and this liability lasts two years.

The most striking feature of this code is the omission of

[1] Herrick and Ingalls, *op. cit.*, p. 349.

the compulsory audit. Inspection of banks was not required in Germany in 1883, but the continued absence of such inspection in Italy is noteworthy.

Of late years the movement has grown more slowly, probably because the people's banks now in existence already do a full third of the country's business.[1] Between the joint stock banks on the one hand and the rural cooperative borrowers' associations on the other, the field is now pretty well covered. In 1908 there were in Italy 735 people's banks. These had a combined membership of 501,022. Their capital and reserves amounted to $31,132,800 and their deposits to $200,000,000.00.[2]

The next step after getting the banks well started was naturally to organize a federation with its subordinate leagues and its publicity and audit. But that step has not yet been taken. Efforts in that direction have thus far resulted only in the formation of nine provincial leagues, which do little or nothing except to exist. These leagues consist of those banks respectively which carry accounts with nine of the larger banks of the system. Associations with liability limited to the value of the shares have no such desire for audit as do the German banks, where even in the cooperative society with "limited liability" members are liable for at least twice the value of their shares. The lack of the compulsory legal audit has also removed one of the inducements for membership in a league. In the absence of both legal audit and auditing leagues there is a greater variety among Italian than among German banks, not only in by-laws and business methods but also in safety and probable solvency. Not all of the Italian people's banks live up to the high standards set for them by Luzzatti and the better banks.

[1] H. W. Wolff, *op. cit.*, p. 230.

[2] Herrick and Ingalls, *op. cit.*, p. 348.

There is, it is true, an Italian "Federation" but its activities are limited to struggling to keep alive a journal devoted to cooperation. In Italy there has never been the hostility from without to hammer the people's banks into a compact fighting federation. The Italian Federation has, however, organized occasional congresses on cooperation. The Sixth Cooperative Congress was held at Bologna in 1895. The Seventh Cooperative Congress was held at Cremona in 1907. This one very appropriately elected to its presidency M. Luigi Luzzatti, four times Minister of Finance to Italy and founder of the Italian cooperative banking movement.

CHAPTER XIII

The People's Banks in Many Lands

There remains now the problem of measuring the extent to which the idea of the people's bank has spread around the world.

Of the European countries, France has had probably the most checkered experience with urban cooperative credit. During the last seventy-five years there have been within her boundaries at least three different movements, whose purpose was to extend urban cooperative credit.

The first of these was purely French. In 1848 Proudhon launched his "People's Bank", whose purpose was to regenerate mankind and whose achievement was to become bankrupt within a few months.[1] Buchez popularized the idea of credit to labor. Therefore, probably we should count as an outgrowth of this earlier movement the much advertised *Credit au Travail*, or Bank for Labor, though this institution was not started until 1863. Its manager was Beluze. Among its supporters were to be found men of the most diverse opinions; Royalists like Casimir-Périer, Catholic Conservatives like Cochin, Socialists like Louis Blanc, and even the Nihilist, Bakunin. But within five years this institution also had failed and its creditors received but eighteen cents on the dollar.[2] However, this first period was marked by some successes as well as by these two failures. Among these less advertised but genuinely

[1] H. W. Wolff, *People's Banks*, p. 253.

[2] Theodore Ménikoff, *Le Crédit Cooperatif* (Paris, 1911), p. 183 *et seq.*

successful banks are to be counted, (a) The Provident Aid Bank founded at Limoges in 1830; (b) The Fraternal Bank for Small Commerce, founded at Cognac in 1848; and (c) The Bounard Exchange Bank of Marseilles, founded in 1849.[1]

The second period started with the introduction of the Schulze-Delitzsch bank from Germany only five years after the first bank had been started there. In 1857 nine grape growers and artisans living in Montreuil and Vincennes organized the *Banque de Solidarité Commerciale*. Their meetings were held in secret and the greatest pains were taken to prevent surprise by government spies or police. Such association was criminal under the second empire and a peaceful workingman had been arrested simply because he was the manager of a working-man's society. How much business could be done under these circumstances is not explained. But the repression and secrecy had their natural effect. Within several years, there were reported to be fully 200 of these people's banks.[2] But apparently the more liberal atmosphere of the republic destroyed their cohesiveness, while the unpopularity after 1870 of all things made in Germany, caused a loss of interest, for none of these early Schulze-Delitzsch banks has survived.

The third movement came from Italy[3] and it is these Luzzatti banks which now form the bulk of the French urban cooperative credit movement. But on January 1, 1910[4] the entire movement consisted of but thirteen banks. That there are not more is probably due in part to the fact that France is primarily agricultural rather than industrial,

[1] Herrick and Ingalls, *Rural Credits*, p. 322.

[2] Theodore Ménikoff, *Le Crédit Cooperatif* (Paris, 1911), p. 181.

[3] H. W. Wolff, *op. cit.*, pp. 252 and 257.

[4] T. Ménikoff, *op. cit.*, p. 185.

and in part to the extraordinary smallness of many of the loans made by the various local branches of the great French commercial banks.

The second country to be considered is Belgium. It will be recalled that within its boundaries was started in 1848 the first genuinely successful cooperative bank of any type. This institution, the Credit Union of Brussels, is still in existence and is extraordinarily successful. In 1910 it contained 5,232 members and had a capital of $14,207,600.00. There are now five other credit-unions of this same type though no others are so large. All of these credit unions have confined their attention and their loans chiefly to the wealthier merchants. Thus there was room for Schulze-Delitzsch banks also. The first of these was introduced by Leon d'Andrimont at Liège. Others were formed at Verviers, Huys, Gand, Namur and elsewhere. In 1913 there were 45 of these Schulze-Delitzsch banks belonging to a federation of which M. d'Andrimont was president.[1]

In Germany at the close of 1914 there were within the Universal Federation alone 976 people's banks. Of these, 945 voluntarily reported. These 945 reporting banks contained 618,408 members. They had surplus and share-capital amounting to more than $87,000,000.00 and total assets in excess of $410,000,000.00. Two independent leagues of somewhat similar character, those of Ulm and of the provinces of Posen and West Prussia, brought the total number of banks of this type up to 1287. This 1287 is of course exclusive of the Head Federation and the fairly considerable number of cooperative banks outside of any federation whose exact nature it is more difficult to determine. Of these 1287 banks 1251 reported. These 1251 banks had a combined surplus and share capital well in ex-

[1] Herrick and Ingalls, *op. cit.*, p. 382 *et seq.*

cess of $100,000,000.00, total assets of more than $531,000,000.00 and an enrollment of 901,121 members.[1]

The former empire of Austria also showed an extraordinary development of people's banks. As in Germany, so in Austria there had been rudimentary cooperative societies for many years. Friendly societies for charitable loans were also known. These facts, combined with the similarity of language and of institutions and the common membership —until 1866 at least—in the Germanic Confederation, made it as easy for the ideas of Schulze-Delitzsch to spread in Austria as in the states later consolidated in the German empire. Once in Austria the idea spread rather naturally to people speaking languages other than German. The first Schulze-Delitzsch bank in Austria was started in 1858. By 1870 there were 943 and by 1913 there were 3,599.[2] Many of these are now of course in Czecho-Slovakia and in Poland.

A survey made just before the war brought out the fact that there were at that time 19,091 registered cooperative societies within Austrian boundaries. These included a wide variety of cooperative effort. But 3,511 were Schulze-Delitzsch people's banks. Of these, 431 had joined the federation of Schulze-Delitzsch cooperatives. Of these but 414 sent in reports. The reports, therefore, cover less than one-eighth of the total number of banks. Presumably those within the federation are larger than those outside. But these 414 people's banks showed a combined share capital and surplus of 69,702,756 crowns, (approximately $20,000,000.00) and borrowed capital of 470,392,068 crowns, or approximately $94,000,000.00 more.[3]

[1] H. Crüger, *Jahrbuch des Allgemeinen Verbandes für 1914* (Berlin, 1915), p. 7.

[2] Herrick and Ingalls, *op. cit.*, p. 365 *et seq.*

[3] H. W. Wolff, *op. cit.*, p. 160.

Hungary contained urban cooperative credit institutions of various types. Among these we know that there are some Schulze-Delitzsch banks. The Hungarian Central Bank, or Central Society for Cooperative Credit, established in 1898 after the general model of the *Preussenkasse*, had attached to it in 1912 no less than 2,412 cooperative banks.[1] But of these all but 226 were agricultural societies and none of the others were true Schulze-Delitzsch banks. In addition to these there are a number of other cooperative and semi-cooperative institutions, but it is not possible to state how many of these are true people's banks, or even how many of them are truly cooperative.[2]

In Switzerland the chief urban cooperative banks are *Unions du Crédit* copied after Francois Haeck's Union in Brussels, rather than after the Luzzatti type to the south or the German model to the north. The *Schweizerische Volksbank*, for example, had shares of 1000 francs ($200.00) each. In its report the number of artisans was included in the number of laborers, but these classes together included only 4,287 out of 69,026 shareholders.[3]

In Italy it will be recalled there were some 735 banks with an aggregate membership slightly over half a million and deposits of about $200,000,000.00.

The greatest extension of cooperative banking however, has probably been in Russia, where there were in 1913 no less than 3300 such banks. Of these 3,019 reported. These 3,019 contained 1,736,301 members. Their share capital was $23,662,275.00 and their loans outstanding amounted to $109,193,390. These banks were united into federations, but these federations had no authority to audit

[1] Herrick and Ingalls, *op. cit.*, pp. 371-378.

[2] H. W. Wolff, *op. cit.*, pp. 160-161.

[3] H. W. Wolff, *op. cit.*, p. 325.

or to control the affairs of their member societies.[1] These figures are exclusive of Finland, where there are many cooperative institutions. But it seems probable that most of the several thousand cooperative banks in Finland are of the Raiffeisen type. Even assuming that only a portion of the Finnish cooperatives were people's banks it seems possible that before the war there were in the Russian Empire more than two million people who were members of some people's bank.

Even these stupendous figures have been exceeded since the outbreak of the war. In 1913 there were 3300 such banks; on Jan. 1, 1915, there were no less than 4078. Since the Bolshevik Revolution it is more difficult to tell just what has happened. There is, however, one great difference between the Russian and the true Schulze-Delitzsch people's banks; the Russian banks engage in other business besides banking. For example many of them market their members' product.[2]

In British India there have been for ages institutions know as *Kûttūchuttu*, and since about 1850 there have been others known as *Nidhis*. The first of these resembles to some extent, and the latter resembles exactly, the American savings and building-loan association, with the exception that both may lend on personal security. They are thus somewhat like the Massachusetts Credit Unions.

Late in the last century cooperative credit institutions were introduced. These were of a somewhat modified type, but there are now a large number of rural banks and also some 415 urban cooperative credit institutions.[3]

[1] Herrick and Ingalls, *op. cit.*, pp. 398-399.

[2] H. W. Wolff, *op. cit.*, p. 189 and J. V. Bubnoff, *The Cooperative Movement in Russia* (Manchester, 1917), p. 51.

[3] Herrick and Ingalls, *op. cit.*, pp. 428-432.

In Japan there is an indigenous form of urban cooperative credit, though in the form of a cooperative investment association. Money is raised, not only by the subscriptions of members for shares, but also by making each member place a certain number of shares with his friends. In 1917 there were 173 such associations with a paid-up capital of 3,111,931 yen (approximately $1,500,000.00). These associations have been given an assured legal position by a law passed in 1915, but their membership is by statute restricted to persons who already possess $15,000.[1]

In the French African provinces, Algeria, Tunis and French West Africa, efforts have been made to extend cooperative credit, but chiefly by means of cooperative borrowers' associations rather than by people's banks. In Egypt, Omar Lufty Bey attempted to organize a rural credit institution; but in view of the condition of the Egyptian law he was compelled, like Luzzatti, to organize his bank as a corporation.[2] It has thus come to resemble a people's bank in many respects. In 1912 it had a capital of $35,000 and had outstanding $105,000 in loans, chiefly to small farmers.

Argentina and Uruguay both have laws authorizing the formation of cooperative societies, but the cooperative banking movement in both these countries has been largely a government-fostered program for extending cooperation in agriculture. Thus the most significant development of people's banks in the New World is that which originated recently in Canada.

Levis is a suburb of Quebec. Canada permits branch-banking, a system which everywhere seems to create a need for some supplementary credit institutions. In this town

[1] Wolff, *op. cit.*, p. 359.

[2] Herrick and Ingalls, *op. cit.*, pp. 435-437.

then there seemed to be a real need for some source of credit for the smaller borrowers. To the solution of this problem Mr. Alphonse Desjardins devoted some fifteen years of study, even going abroad to investigate conditions there and to talk with European cooperators. As a result of his study, he decided on the adoption of the Luzzatti plan. But there was no law authorizing the formation of such organizations as the Luzzatti banks. Mr. Wolff, the famous leader in the English cooperative movement, advised him to go ahead anyway. This he finally did. But instead of organizing at first as a corporation, as did Luzzatti, Desjardins chose to organize as a voluntary association. This form of organization is not so well adapted for securing capital from outsiders. This difference from the European prototype was still further emphasized in 1906 when the statute authorizing such associations was passed, for this statute prohibited the receipt of deposits from non-members.[1] Thus the Canadian institutions ceased to be banks in any strict sense of the term and became a new institution, half-way between the people's banks and the primitive friendly or provident societies. This position as a new and unique institution was still further emphasized by the fact that the bank at Levis undertook as part of its regular business the work which in Italy was called "honor loans". It helped poor wage-earners over periods of distress by making small unsecured loans.

This first bank was started December 6, 1900. Shares were set at five dollars each. Members might pay for these in instalments and might purchase as many as they pleased. Members might also make deposits, but only members might make these deposits. These deposits might be withdrawn practically at will. Shares also might be withdrawn upon

[1] H. W. Wolff, *People's Banks*, p. 264.

a month's notice. Thus the capital of the association was a fluctuating one. Each member was given but one vote.

For many years loans averaged only about $200 each and half of these loans were for sums between $10 and $100. Nearly ten per cent of the loans were for sums less than $10. The interest from these loans is used, first to pay the bank's expenses; then to pay interest on the deposits, usually at 3%; thirdly, to build up an indivisible reserve or surplus to which at least 10% of the bank's annual profits are devoted each year; and finally, to pay dividends on shares usually at the rate of four or five per cent. The most remarkable thing about this bank is that even after it had been operating for many years it was still in the enviable position of never having lost a penny.[1]

By 1912 the bank's surplus was $11,741.53, its paid-up share capital $114,343 and its deposits $53,564. By 1914 its assets were $304,985.92 and its membership 1,240. By 1920 it had on hand $206,231.90 in cash and had outstanding loans to the amount of $887,277.02. Its share capital was $249,450 and its total assets no less than $1,093,508.92. The remarkable record of this institution is probably due in part at least to the fact that M. Desjardins "stood by the ship" and served as president of this institution until the time of his death.

The success of this bank inspired many others to imitate it. By 1914 there were nearly 150 such associations in Canada. By 1920 there were nearly two hundred of them, with assets aggregating more than $4,000,000.

The operations of a *Caisse Populaire* of the Desjardins type is confined to a single electoral district or area within which members may be known to each other. Supreme authority is vested in the annual meeting. There are nine

[1] Herrick and Ingalls, *op. cit.*, pp. 445-449.

directors, some of whom retire each year. The board of directors elect the president, who is the bank's only salaried official, as well as its chief executive officer. Next, there are three supervisors who must examine the accounts and assets collectively. The board of supervisors may suspend any officer, provided they call the shareholders together immediately thereafter. The committee on credit consists of four members, different from both of the above. These four, together with the president, pass upon all loans and each must approve before the loan is granted. Every effort is made to stimulate members to greater care and to greater thrift.

But the great contribution which the Desjardins banks have made is not only that of a new structure, but also that of serving a new purpose, the making of remedial as well as of business loans. Mr. Desjardin's work has been the inspiration of the prosperous credit-union movement which has sprung up in the United States. The first such organization within our boundaries was the *Caisse Populaire de Sainte Marie* founded in 1909 at Manchester, N. H. On August 20, 1921 this association had assets amounting to $737,116.22.

The first state to enact legislation legalizing these institutions was Massachusetts. Under the leadership of Mr. Pierre Jay, then bank-commissioner of the state, a statute was passed in 1910. This statute differed from the Canadian statute chiefly in that it imposed additional restrictions on the association's officers. It also gave to the organizations an American name, credit-union. Finally the new law contained a requirement that all entrance fees, transfer fees, and one-fifth of all net profits should be devoted to a special reserve, to be known as the guaranty fund. Only after this guaranty fund had grown to a sum equal to the capital of the association, could this revenue be disbursed in dividends.

Next, this infant institution, the credit-union, was fortunate in enlisting the active support of a number of public-spirited citizens, among them Mr. E. A. Filene. The phenomenal growth of these associations within Massachusetts is indicated in the table at the end of this chapter. These organizations are now united in a Massachusetts Credit-Union League.

A typical Credit-Union was organized among the city employees of the City of Boston in 1915. The investigation which led to its organization disclosed the fact that some employees were borrowing from money-lenders at rates which averaged 180 per cent a year and furthermore that "on an average over a hundred men lost a half day's pay each week in order to make necessary arrangements with money-lenders to withdraw assignments of wages. . . ."[1] In two years this City of Boston Employees' Credit Union made 725 loans totaling $56,680.01. On these its losses aggregated $54. The average interest paid by borrowers was 8 per cent. This covered all expenses, losses and the necessary additions to the guaranty-fund and also permitted a dividend to stockholders of 6 per cent.

Among the more successful credit-unions has been the one organized among the employees of the telephone company. This association has done excellent work in encouraging its members to purchase at sales and for cash instead of buying on credit. As the assets of this credit-union have grown, it has been discovered that the demand for loans has not grown proportionately. Apparently about $200,000 can be employed at any one time in loans to members of the union. This sum apparently will take care of all the families in temporary need because of sickness, death or some of the other ills which normally cause dis-

[1] J. M. Curley, *City of Boston Employees' Credit Union* (published by City of Boston Printing Department, 1917).

tress. This sum will suffice to take care of borrowers until the time comes when they can repay. But the assets of this union are now in excess of $400,000. Thus the union has become a considerable purchaser of investment bonds. Luckily the law allows the credit-union to make any investment which would be legal for savings banks.

This steady growth of assets until it exceeds the demand for remedial loans seems to be characteristic of many credit-unions. Some use as little as one tenth of their assets in this way. Thus there is a great increase in the number of business or productive loans. Some unions are run primarily to handle this business. Others are encouraging members to buy homes. In such cases the union will usually lend to the prospective purchaser on a second mortgage provided the first mortgage is conservative. Some of the credit unions carry very considerable cash reserves.

Some evidence of the success of these credit-unions may be seen in the fact that in five years the loans of the credit-unions have grown from half a million to four million dollars. During this same period the number of licensed money lenders in Massachusetts has decreased from 127 to 59, and the capital invested in this private, money-lending business decreased from over $7,000,000 to less than $2,000,000. Yet the credit-union capital which has made this change possible has been collected in very small sums.[1] It is estimated that the average entrance fee is only twenty-five cents and that in at least half the associations shares may be paid for at the rate of twenty-five cents a week. In a few credit-unions these payments are as low as ten cents a week, and even in this period of hard times not a single Massachusetts credit-union has as yet been forced into liquidation.

[1] R. F. Bergengren, *The Credit Union*, p. 22.

Outside of Massachusetts and New Hampshire the first associations to be formed were those started by Mr. Leonard G. Robinson, the manager of the Jewish Agricultural and Industrial Aid Society. His first cooperative bank was one for farmers founded at Fairfield, Conn. on May 1, 1911. These banks, however, differed from the Desjardins credit-unions. They were voluntary associations, organized in states which had no credit-union statute. They were thus subject to no special restriction and thus received very considerable loans from non-members, or at least from a non-member institution. By the close of 1913 there were 18 such banks.

The next development was a growing interest in the Massachusetts credit-union movement. With the spectacle of the success in Massachusetts before them, New York, Rhode Island, North Carolina and New Hampshire enacted similar statutes. Virginia and Kentucky have followed within the present year. Maine has authorized one such credit-union by special act of the Legislature. South Carolina has enacted a different law which has hedged her credit-unions with extra provisions for safety. These have made the formation of such unions unnecessarily difficult. Utah, Wisconsin, Texas and Oregon have each enacted statutes authorizing associations which differed from the Desjardins model, most of these states requiring paid-up shares of considerable value as a prerequisite to doing business. Neither in this country nor abroad has it been possible to organize people's banks on such a basis. Thus it is reported that no associations have been formed under the law of these four states. But there are very successful associations operating in those states which have copied substantially the Massachusetts statute.

North Carolina imposed one additional restriction on the business of these credit-unions in her statute when that was

passed. The credit-unions there may use their funds for productive purposes only. This has brought the North Carolina credit-unions back a step toward the German prototype and has restricted their usefulness chiefly to farmers. But they seem to be serving these farmer members extremely well. Mr. G. S. Patterson of the state's Department of Agriculture reports that one such credit-union among its other transactions purchased for its members $7100 worth of fertilizer on which it was successful in saving them more than $1400.

It is reported that at the present time there are groups of men in fifteen other states who are eager to see a credit-union statute passed in their own states, and who are ready to assist in the formation of such organizations. The record then of these provident associations or credit-unions is one of extraordinary success.

Date	Number	Members	On Shares	On Deposits	Loans	Borrowers	Cash	Resources
1909	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .
1910	1	105	1,670.00	605.66	1,745.13	64	705.37	2,448.50
1911	17	1,623	19,623.25	5,154.42	19,035.53	348	6,895.27	26,983.11
1912	26	2,862	64,910.43	21,948.49	68,332.54	752	23,139.18	94,080.41
1913	34	4,529	120,284.48	50,308.36	146,597.41	1,560	34,130.12	184,608.66
1914	50	6,119	177,657.31	78,891.00	224,300.34	2,109	44,336.60	279,358.23
1915	47	7,846	252,218.00	143,592.41	302,430.36	2,887	49,103.42	431,590.48
1916	53	11,418	436,164.36	328,102.61	652,385.78	3,623	124,310.82	616,440.08
1917	56	14,821	593,020.21	561,962.47	993,344.98	4,585	161,017.17	1,247,585.00
1918	59	17,636	874,542.19	978,494.86	1,555,087.87	5,897	276,725.56	1,977,778.00
1919	60	22,987	1,372,322.09	1,239,514.64	2,295,831.85	7,872	260,257.52	2,791,165.00
1920	65	29,494	1,938,843.97	1,784,580.75	3,323,409.93	9,621	323,717.46	3,995,459.00
1921	82	34,000 *	2,134,487.00	Not Available	Not Available	Not Available	. . . . .	4,352,903.00

* Approximate.

The Massachusetts credit unions do not borrow from banks to a sufficient extent to be worth investigating.

The League's statistical information does not contain data by which without a great deal of difficulty it could be determined how many of the members are also depositors. In some credit unions the members prefer to keep the bulk of their money in deposits. In others no deposits at all are accepted, etc.

CHAPTER XIV

The Essence of Cooperation

In tracing the history of even that small portion of the cooperative movement which has been connected with the development of the people's banks, one cannot fail to be impressed by the wide variety of institutions which have been heralded as cooperative. Nor can one fail to be equally impressed by the bitter differences of opinion which have often arisen between these various branches of the cooperative movement. In part, these differences of opinion have been traceable to local sources of irritation, but in part they have been due to more fundamental differences of view with respect to the essential nature of cooperation itself.[1] In fact, there have been at least five different sets of views with respect to the essence of the cooperative movement. With these five sets of views are associated five different definitions of cooperation.

There is, first of all, the kind of definition given the first place in most lexicons, "Cooperation is collective action for some common end, especially in industry" says the Century Dictionary. And only under so comprehensive a definition as this could we include as cooperative some of the earlier organizations which are generally regarded as coming within the cooperative group. Only an inclusive definition of this type would cover organizations, such as the Owenite com-

[1] W. E. Snell, "What is Cooperation?", *Economic Review*, vol. vi, p. 528.

munities [1] and the wide variety of institutions described by Huber.[2]

Definitions of the second type regard the social class of the members of the cooperative unit as the distinctive line of demarcation. Thus Devine, the secretary of the Urban Cooperative Banks Association of England, has defined cooperative banks as "societies composed of small tradesmen, clerks, artisans, and working people generally, with the addition of such members of other sections of society as they invite or approve—" [3] and again "a Cooperative Bank is a mutual society, formed, composed and governed by working people themselves—".[4] This concept of cooperation appeared early in the English movement. It characterized even the earliest English efforts in cooperative finance, such as the early local friendly societies and savings banks. Even today this definition characterizes pretty well the view of cooperation held by representatives of the English cooperative banks.[5]

A definition of a third type was decided upon in 1873 by the cooperative Congress at Newcastle-on-Tyne. Their resolution read as follows: "Any society should be regarded as cooperative which divided profits with labor or trade or both." Thus the line of demarcation was made to depend on whether or not the profits went to those who furnished the capital. In similar vein John Stuart Mill said, "Cooperation is where the whole of the product is divided. What is wanted is that the working class should partake of the profits of labor." [6]

[1] *Cf.* chap. i, *supra.*

[2] *Cf.* chap. ii, *supra.*

[3] Devine, Henry C., *People's Cooperative Bank* (London, 1908), p. 1.

[4] *Ibid.*, p. 2.

[5] *Cf.* Wolff, *op. cit.*, pp. 717-172.

[6] Holyoake, *History of Cooperation*, vol. ii, p. 76.

A very slight modification of this definition was presented to the American public by Francis A. Walker, when he wrote,

> The aim of cooperation is to get rid of the employer, and divide his profits among his former workmen, who are to become, for the future, self-employed: to organize themselves, in their own way, for industrial purposes, and carry forward production on their own account and at their own risk.[1]

This definition was primarily designed to cover industrial cooperation, but it brings out clearly one concept—that the aim of cooperation is to get rid of the business organizer. This quasi-socialistic concept is the one which still has the greatest vogue within the United States. This is distinctly the American conception of cooperation.

A fourth concept is that of cooperation as a legal form of business organization, useful often for certain purposes and useful often to certain classes, but not necessarily confined in its usefulness to one purpose nor to one class. The cooperative syndicate whose use forms the essential element according to this view, need distribute no dividends to laborers or to customers. It may pay large dividends on its shares of capital stock. It may produce a large, if fluctuating, income for its organizer, provided he remains the controlling officer. This is the type which in this book is referred to as syndicate-cooperation. It is more recent than the preceding kind. This type of cooperation dates back only to the invention of Schulze-Delitzsch. It is common only on the continent of Europe.

Finally there is the Raiffeisen type of cooperation. According to both Huber and Raiffeisen the cooperative movement was a means of elevating the moral tone of economic life. The form of association to be used was the Schulze-

[1] F. A. Walker, *Political Economy* (New York, 1911), p. 343.

Delitzsch syndicate, sometimes slightly amended. But this choice of the syndicate form was merely a means toward a larger end; and that larger end was not socialistic, but religious. In some respects this concept of cooperation makes the word one of aspiration and almost too vague for definition. From this mysticism there was some reaction even among the rural syndicates of Germany, so that now in many places Raiffeisenism means only a few amendments to the syndicate-cooperative form, but in many lands the Raiffeisen bank is still primarily a means of moral education.

For Americans the important contrast is between the third and fourth concepts of the movement. The third, that is the present American concept, that of the cooperative association as a means of getting rid of the business organizer or employer, is by no means confined to America. It has appeared within the cooperative movement in many lands. It had a considerable vogue even among one group of the Schulze-Delitzsch syndicates. It will be recalled that even among the members of the Universal Federation, this was the view of cooperation held by the group of cooperative stores which were therefore nick-named "socialistic." This was the concept of cooperation which led ultimately to their expulsion from that federation and to the formation of their own organization at Hamburg.

The "middle-class" stores of the Universal Federation present, on the other hand, a very clear picture of the Schulze-Delitzsch or syndicate-cooperative program. To members of these middle-class stores, the cooperative syndicate was merely the form of business organization most convenient for their purpose. It offered to them the corporation's centralization of administration and some of the corporation's ease in securing long-term investment capital together with all of the partnership's excellence as a means for securing short-term credit. This businesslike attitude

toward cooperation has dominated not only Schulze-Delitzsch himself, but also his huge Universal Federation.

The legal form known as the cooperative syndicate then has no necessary connection with any program of social reform. In some countries the cooperative form has been used by Socialists of various types, but it has been more extensively used by advocates of views that are strikingly different. Thus during the last fifty years of the German occupation of the western part of Poland, the cooperative form was largely used by Poles to further their nationalist aspirations. In Prussia itself the cooperative form was largely supported by representatives of the Lutheran Church and was used to further their religious ideals. In France, in Italy, in Spain and in Portugal the cooperative form has been largely used by people who desired to extend Catholic Christianity, while in Holland and in Belgium the Catholic Church has been the chief support of the rural cooperative movement. As a democratic organization in which a certain amount of personal contact is necessary, the cooperative form is far more likely than the corporation to be composed chiefly of people who have already a certain consciousness of kind, and to work better because of that likemindedness. But it would be a mistake to identify the cooperative syndicate with either Catholicism or with quasi-socialistic programs of reform. The cooperative syndicate as such has no views and no program. It is simply a form of business organization.

What then are the essential characteristics of the cooperative syndicate? The American Cooperative Savings and Building Loan Associations give us only a partial clue, for they have a specialized form of their own. Among the business forms known to American law the cooperative syndicate resembles most closely the almost obsolete type of organization known as the *joint-stock company at com-*

mon law. But the syndicate contains within its structure safeguards not known in that type of organization, safeguards whose absence has justly caused the common-law joint-stock company to be regarded with distrust. If our comparison be confined to the business forms now in use, the cooperative syndicate will be found to stand about midway between the ordinary or general partnership and the business or joint-stock corporation.

The capital of the cooperative syndicate may be raised by donations, but that is extremely rare. The working funds may be borrowed in their entirety, that is, the syndicate may depend entirely upon the remarkable excellence of its credit. This is common, but it is common only among the smallest syndicates. Ordinarily the capital of a syndicate is raised by the sale of shares of its capital stock. In that case no one may become a member of the syndicate without purchasing at least one share of capital stock. Furthermore each member ordinarily is free, and even encouraged, to purchase as many shares as he can afford. Shares may often be paid for by instalments, but the time within which these payments must be completed is definitely limited. The size of shares in each syndicate is determined by its articles of association or charter, but each share is of the same size. In many respects then the syndicate resembles the joint-stock corporation.

The credit of the cooperative syndicate is due to the additional liability of its stockholders. This may be limited to an additional amount equal to the par value of its shares, as is the case in our American national banks, or it may be unlimited, as in the case of the ordinary American partnership. Between these two extremes, that is, between limiting the member's liability to twice the value of his share and leaving it entirely unlimited, each cooperative syndicate may usually decide for itself by prescribing the amount

of its members' liability in its articles of association. Naturally then these articles of association must be a matter of public record, and the formality of becoming a registered syndicate is considerable.

This additional personal liability of members in case of insolvency can usually be enforced only after the assets of the syndicate have been exhausted. The liability of members varies with their stockholdings, but only in a rather unique way. Each member in a syndicate with limited liability will be assessed the entire amount of his liability on his first share before any member may be compelled to pay any part of his liability on his second share. In associations with unlimited liability, usually each must pay the same amount until the entire assets of the poorest member are exhausted. Then the deficit still remaining is divided again among the others in the same fashion. Every member is thus given a direct and powerful motive to do all possible to prevent bankruptcy.

The distribution of the net earnings is the most difficult subject on which generalizations must be made. The law differs in different lands. And even under the same law there is often considerable diversity of practice. Net earnings may be used for paying dividends on member's shares. They may be used to refund a portion of the interest and commissions paid. A portion is usually used to support some federation whose purpose is to extend the movement. A portion is often used for works of public benefit. Ordinarily, the law requires that a portion be held as a reserve for future losses and occasionally all net earnings are thus devoted to the creating of a permanent surplus.

This caution in creating reserves and surplus is due in some syndicates to idealistic considerations, but in many it is due to a shrewd appreciation of the two great elements of danger in the syndicate form. These two elements of

danger to syndicate members are (1) the extra liability for debts of the syndicate, and (2) the fact that members who retire from the syndicate, may, after a certain interval, withdraw also their share of the capital in so far as that share is not known to have been impaired by losses.

These two risks in turn have necessitated the use of a more complicated administrative mechanism. As compared with the American corporation, the syndicate would probably be safer, but it would certainly be less likely to undertake all the profitable risks offered. The administrative mechanism of a cooperative syndicate is divided into three parts: the execution of policy, the determination of policy and the negative element of supervision and control. Execution is naturally in the hands of the officers. These officers may be independently elected and may be *ex-officio* members of the board which determines the policy or they may be mere agents of that board. In nearly all cases the actions of this policy-determining board are subject to periodic review by a supervising body which may temporarily suspend the board and summon a general meeting of all members.

The most unique protection of all is found, however, in the constitution of the general meeting of all members. Here ordinarily no proxies are permitted, except from minors and from associations. Those who hold the proxy of a minor, or of an association, are permitted to represent only that one member. Usually, also, each member has but one vote. These two rules have had several results. Together they make it very difficult for the administration of a syndicate to plan out in advance a program for a meeting, and then to push that program through the meeting without genuine discussion. The interests of members are thus more adequately protected against "log-rolling" which might benefit only a portion of the membership. In the second place this rule increases the interest of members who

own but one share of stock. In the getting of new business this active interest on the part of the ordinary syndicate member is a real asset. Finally, these rules combined with the method of dividing the deficit in case of bankruptcy, make it possible to secure members whose property will add materially to the credit of the syndicate. If votes were distributed in accordance with investment, particularly if proxies were also permitted, no well-to-do individual would dare join such a syndicate with its attendant risks unless he could purchase enough stock to secure control. There would always be the danger that a few people with but little property would invest what little they had in the stock of the syndicate and thus elect themselves to office. Then, holding control, these irresponsible stockholders could borrow money on the credit of the syndicate, which would mean on the credit of the richer members. They could then carry on the business as they pleased without much regard to the wishes of the richer members. In line, then, with this policy with respect to votes, we find the custom of controlling the administration by means of certain by-laws, such for example as that limiting the amount they may lend to any one individual. It is a very interesting fact that the only country where the cooperative syndicate has substantially failed in competition to secure the bulk of the farmer's credit business is in a country, France, which has subsidized the syndicate to a most extraordinary degree, but has not compelled the adoption of the principle of one-man-one-vote. Yet in that very country the unsubsidized, but democratically managed, *syndicat* has spread rapidly.

Creditors of a syndicate have a claim on the syndicate's assets and on the personal assets of syndicate members. As one conspicuous member may, therefore, sometimes be the substantial guaranty for the solvency of the whole syndicate, it is important first to provide

a means by which he may withdraw in case the syndicate adopts policies which he regards as dangerous. Next, fairness to creditors demands that they be given ample notice of any change in the syndicate's credit standing. This is accomplished by making a member, who has withdrawn, liable for a definite period, often two years, for debts contracted before he withdrew, and by dating his withdrawal only from the first annual balance sheet drawn up after his resignation has been entered on the public records. Next, any alarm among creditors would immediately be reflected in a curtailment of the syndicate's credit. This, in turn, would hamper the very operations which the withdrawing member regarded as dangerous. This power of the better known members to curtail the operations of those syndicates which have inadequate capital, is often tacitly recognized by placing such men either on the board of officers, or, more commonly, on the board of supervisors. In the Raiffeisen banks particularly, it has come to be an almost regular custom that the chairman of the board of supervisors shall be chosen from among the richest members. But the men whose peculiar contribution to the syndicate is thus recognized and honored are the men who, while not necessarily the largest stockholders, do most to improve the credit of the syndicate, that is, they are the men who would lose most if the syndicate were to become insolvent.

The cooperative syndicate, as known on the continent of Europe, differs from the obsolete American common-law joint-stock company in that it offers to its members nine safeguards which are not present in the latter organization. These safeguards are: (1) Members may withdraw both their persons and their capital. In case of disagreement a member need not wait until he finds some one who is willing to replace him and to purchase his stock with its attendant liability. (2) The member's liability need not be entirely unlimited. (3) Liability for the deficit in case of insolvency

can be enforced upon members only in a legal, orderly fashion. Creditors may not attack at once the property of the nearest or richest member. (4) Administration is made somewhat less vigorous and less profitable, but more conservative by the addition of the council of supervision. (5) The rules prohibiting proxies and the casting of more than one vote by any member tend to prevent log-rolling and also to prevent the adoption of policies which would result in immediate profits at the risk of ultimate insolvency. (6) Loans may be made only to members. (7) Membership is restricted to those who continue to reside in a definite geographic area which must be prescribed in the registered articles of association. (8) In many countries the law enforces upon these organizations audit and examination comparable to that which is required of national banks in this country. (9) Membership can not be purchased. A member may withdraw his capital, but he may not sell it. Membership may be acquired in certain cases by inheritance, but apart from that it may be secured only by election.

The definition of a cooperative syndicate which was finally accepted by Schulze-Delitzsch after a life-time of experience has been embodied in law. Thus the legal definition in Germany and commonly in other lands as well is "a company whose membership is not restricted to a precise number, whose purpose is the furthering of the economic interests of its members and whose method of achieving this result is by the conduct of some business on their joint account."

Finally, it is safe to say that, since the origin of the cooperative movement in England during the first half of the last century, there has been no single event in its history nearly so important as the discovery and gradual perfection of the legal form of business organization whose most essential characteristics are summed up in this definition of the cooperative syndicate.

CHAPTER XV

The Field For Cooperative Credit

The sphere within which the cooperative syndicate has had its greatest usefulness is fairly clearly marked. When there is enough banking business in sight to warrant the organization of a corporation with considerable capital and a full complement of officers, there is—as a purely commercial proposition at least—no field for the cooperative syndicate. The syndicate banks then would not compete with our national banks. But if the necessary amount of investment capital can not be found, or if a corporation organized with only such capital as can be locally subscribed would be too small to command the necessary degree of credit, or if the volume of business in sight were too small to make such investment profitable, then there is a real field for the credit syndicate. But even then the credit syndicate can not thrive by making small honor-loans to the propertyless any more than can a commercial bank. There is no magic in the cooperative form which causes its officers to be gifted with a special good-fortune in the making of unsafe loans. In those few cooperative banks where such "honor loans" are made, they are regarded by the syndicate in somewhat the same way that its charity account is regarded by a corporation. The cooperative syndicate is designed to serve the needs of business, not of charity. Charity may, however, be an incidental by-product. Furthermore, the syndicate, like the corporation, can succeed

only if it can find officers who are at least moderately competent.

On the other side there is no field—as a purely commercial proposition at least—for the cooperative syndicate if a small partnership can secure the business, and can also command the capital and credit necessary for its performance, and if partners can be found who are willing to assume the heavy legal risks involved in entering a partnership agreement and are then willing to devote their time as usual to their regular occupations so that the partnership business need not be expected to support them nor to pay for their time. This aspect of a partnership, the impossibility of conducting business under it without a considerable overhead in some form for the partner's time and risk, has kept that legal form from ever becoming in any country a real competitior for the business of the cooperative syndicate.

Even within these limitations the types of business in which the syndicate has succeeded have been chiefly of two kinds. First, there is the case where operations requiring judgment may usually be temporarily postponed until the meeting of some board, and the volume of such operations is not so large that attendance at board-meetings is an intolerable drain upon the time of an unpaid officer. With this case there must be included also the case where the officers are only moderately competent, and where their judgment is moulded in part by the constant discussion and criticism of their fellow-members. These fellow-members may also actually carry a considerable portion of the burden of administration by serving on committees or by watching loans. This case is fairly typical of the Raiffeisen and of the smaller people's banks. On their administrative side the rural village syndicates all over the world may be fairly adequately described as organizations in which many men

accomplish things which could be done by an expert in a small fraction of the time actually consumed, but which operate under conditions that make it prohibitively expensive to import the expert, and where the presence of the expert might even slow down the rate at which syndicate members were thus educating themselves in business practice.

The second case is that of the Schulze-Delitzsch bank in which officers are paid, often by the receipt of a very considerable percentage of the bank's profits. In the absence of the syndicate form these officers might well be trying to run a small business of their own. They might even be engaged in the same line of work, but they would not in that case be able to secure the much larger degree of credit and consequently rather larger profits which are made possible by organizing their bank or business as a cooperative syndicate. They therefore organize such a syndicate and become its board of officers. Into this syndicate they then invite as members those business men whose accounts they would like to secure and also those whose credit would strengthen the standing of the syndicate. This promoter-like position of the officers of the larger Schulze-Delitzsch syndicates must not be forgotten. For some of them the cooperative syndicate is simply the legal form through which it is easiest for them to secure capital, credit and new business.

For such promoters the syndicate form would have six advantages over a partnership of the American type. The promoter's liability could be limited. The business would not be bound by the action of a single partner; it would be liable only for contracts executed by the whole board. The business would not be disturbed by the death, withdrawal or addition of any partner. The business would have a separate legal existence. The capital might be larger; and, finally,

the credit of the new business would not be limited to the combined personal credit of the officers; it would be increased by the addition of every new member.

For the promoters of a new bank, unless they were men of some wealth, the syndicate form would have two advantages over a corporation so small that the promoters could be certain to retain control. These advantages are that the syndicate could secure more investment capital and much more credit.

Finally, if the volume of business in sight were large, the promoters of a new bank might try to interest outside capital and to form a large corporation of whose control they could not be so certain. Over such a corporation the syndicate form would offer the following advantages to them:—(1) Business could be started without waiting to secure the subscription of any considerable part of the capital stock. The capital of the new business could be built up gradually. (2) The syndicate form with its personal contact, would tend to keep customers interested and thus tend to reduce advertising expenses and to build up business, at least until such time as the growth in size should make the personal contact negligible. (3) The bringing in of a new customer would be likely to result in the bringing in of a new member, and, consequently, of more capital and credit. The members already secured may help to do the work of promotion. (4) It is easier for a man with little capital to retain a working control over a syndicate. Within a corporation some one individual may at any annual meeting gather in enough proxies from a few large stockholders to secure control, and may thus deprive the promoter of the share of the profits for which the promoter has built up the business. In the syndicate it would be necessary for the promoter's opponent to divert the allegiance of a larger number of stockholders—and a wise

manager can, in the normal conduct of the business, build up a considerable group of friends and supporters.

The disadvantages of the syndicate form to the promoter are, in the first place, its democratic control. The promoter would never be really free to run the syndicate as his own business. In the second place, he could retain control only so long as he could render service. When he grows old he may be honorably retired on a pension, but he may not hope to retire and live on the continued profits. Finally, the conservatism which is likely to characterize the board of supervisors may prevent him from taking some business which would be profitable or from rendering services which would be good business-getters. In competition, this superior freedom of the corporation often proves to be a very important advantage.

This business-like attitude toward the cooperative syndicate is to be found chiefly in Germany, and it is in Germany that the cooperative syndicate has rendered its greatest service.

Even if this business-like attitude were dominant everywhere, there would still be two advantages to the business community as a whole in some development of the syndicate form. Syndicate organization would result in a more democratic control of banks in those districts where there is business enough to support only one bank. In the absence of competition a bank may confer upon its owners some degree of monopoly privilege, to which a more democratic control of its policies by its borrowing customers might prove to be a desirable antidote.

More important than this, however, is the reaction which the syndicate form would have upon its chief officer. The executive officer of a corporation can often secure the retention of his position, power and income by saving and purchasing the corporation's stock. Assuming the compe-

tence of the two officers to be the same, it would be found that the president of a syndicate can secure similar prestige only by securing superior training. A young man who hoped to become the executive of a small corporation might save the money that a candidate for a position as a syndicate official might spend in securing some professional training. Standards of professional training and of personal efficiency are certainly higher among the officers of the larger Schulze-Delitzsch banks than among the executives of those American state banks and trust companies of similar size which have come under the writer's observation. Part of this difference is, of course, due to a more general condition, the relative cheapness of brains on the continent of Europe. But part of this difference seems to be due to the difference in legal form.

Within the Luzzatti banks there is little of this promoter attitude. Within the smaller people's banks outside of Italy there usually is not a great deal of the promoter spirit. Within the Raiffeisen syndicates there is almost none. Village banks all over the world have been largely promoted by the officials of various national or provincial organizations who have either done the work in a self-sacrificing spirit of public service or have demanded pay chiefly in the form of personal prestige and of political power.

Everywhere the Raiffeisen syndicate has been recognized as the form of cooperative credit from which the greatest moral and educational benefits can be secured. Everywhere then banks of this type have made a peculiar appeal to churchmen, to moral reformers, to statesmen and to publicists. But the Raiffeisen bank is the very type of institution which it is most difficult to start. To succeed, there must be within it a certain degree of like-mindedness, not only as to the purpose of the syndicate, but also as to the members' general outlook on life. Furthermore, it has suc-

ceeded chiefly where there were also four external conditions, namely—(1) a farming country divided into small holdings, with few transfers except by death, and with but little farm-tenancy; (2) a population living in close individual contact so that each knows the other's manner of life; (3) a considerable degree of agricultural organization already in existence; and (4) some years of experience with the Schulze-Delitzsch syndicate under the same legal system. In our own country the federal land-banks may in time increase the number of small holdings. Rural telephones, free delivery, good roads and the Ford automobile are certainly increasing the number of contacts our farmers have with each other. But in this country there is as yet no great degree of agricultural organization; and American experience with the cooperative syndicate is substantially nil.

The other kind of cooperative association, our people's bank or credit syndicate with share capital, has also been recognized everywhere as bringing to its members both educational and moral as well as commercial benefits. On institutions of this type rest the reputations of both Schulze-Delitzsch and Luzzatti. Under German law all cooperatives must conform outwardly at least to this form, and this type also has received considerable aid from both private and public sources. But any wide-spread propagation of these banks without previous experiment would be very dangerous, and, under present American law, even experiment is dangerous.

In no civilized country today are borrowers eager to undertake the risks involved in experiment which were undertaken by the German experimenters of the last century. Nor is there inducement to them to do so. In no civilized country today is there left anything comparable to the barbarous code with regard to debt which prevailed in Germany during part of the nineteenth century. Nor are credit

facilities so limited. Therefore, business men are not so desperate. The credit syndicate can be started now in most countries only for the reason which has caused it to survive everywhere; that is, because it is the most convenient legal form for certain purposes. During the last thirty years, therefore, experiment has in most countries been compelled to wait upon legislation.

As to the probable usefulness of the credit syndicate to American banking, if such legislation were enacted, it would not be safe to speak too hastily. Prophecy is always unwise. It may be pointed out, however, that there are at the present time in the United States more than 18,000 state banks. Most of these probably would desire to keep their present legal form under any circumstances, but it is just possible that the managers of some of the smaller of these banks might be glad to secure the greater credit standing possible with the syndicate form.

In general, however, cooperative syndicates have rarely been founded by the conversion of going enterprises into the cooperative form. Almost always has the syndicate arisen because it made possible for the first time business which had not been possible before. Then when that business has developed and grown profitable, it has frequently happened that the syndicate has been converted into a corporation. It may reasonably be hoped that legislation authorizing credit syndicates might then safely extend banking facilities to some who have not yet been reached by banks organized under existing laws.

Outside of the business of banking it may also reasonably be expected that the syndicate form could render considerable service. In the United States there has been within the last thirty years an enormous amount of criticism of corporate administration, but at the same time an increasing proportion of the total business of the country has been

done by enterprises organized under this much criticized form. Not only are most large enterprises organized as corporations but many small businesses as well have been formally incorporated. The corporation offers in the United States the only avenue by which a business man may safely secure for his business an independent existence, and for himself limited liability.

This process of compelling all who desire limited liability to incorporate has given to the corporation a certain prestige as a form of organization. But it has also necessitated leaving corporate legislation so lax that all these various types and conditions of enterprises can be crammed in under the one legal form. Financial writers in this country distinguish the " open " and the " close " corporation. In many European countries this same distinction is made, not only in economic discussion, but also in law. In the United States the law makes no such legal discrimination. The organizer of a new business in almost any one of the larger countries of the continent of Europe would have open to him at least three legal forms in which he could secure limited liability. In America he would have but one, the corporation.

The cooperative syndicate may prove to be a welcome addition to those forms of business organization in which liability is unlimited. That is probable. But as an addition to the legal forms with limited liability there seems little room to doubt the possibility at least of its usefulness. Just at present in America there seems to be need for three business forms with limited liability where but one has been until now. The forms with limited liability for which there seems to be a present need are (1) The joint-stock corporation, whose shares may be transferred by any holder without restriction—the typical " open " corporation; (2) The close corporation or partnership in which all partners have limited liability. Such organizations should be comparable to the

German *Gesellschaft mit beschränkter Haftung* or the French *Société en commandite;* (3) The cooperative syndicate.

The crèation of the close corporation, or partnership, in which all partners have limited liability, might involve some difficulty. That is, furthermore, a reform which should be put through by the various states. But if the cooperative syndicates are to engage in the business of banking it seems highly desirable that they, like the national banking associations, should receive their charters from the federal government. With our doctrine of the comity of the states, lax legislation in some one state might cause the appearance in several states of syndicates organized in a fashion that was fundamentally unsound. Even if syndicates were confined to the state of their origin, lax legislation in any one state might cause a series of disasters which, because of the members' additional liability for the syndicate's debts, might in turn cause very great hardship. Such disasters, occurring early, might go far to discredit, and might even permanently destroy, the opportunity for usefulness of a really useful institution.

Americans are extraordinary as a nation of organizers. In corporate organization our development has been remarkable. Within the field of cooperative credit our American savings and building-loan associations have built up a business which makes America the leading cooperative country of the world if the assets of the known cooperative organizations are adopted as the basis of comparison. Within the field of marketing it is probable that no country in the world could show cooperative organizations as imposing as some of our fruit-growers associations or our export-associations organized under the Webb Act. In the field of banking our national banks are by law required to be formed in a fashion that puts them at least one step

on the cooperative side of corporate organization. But no national bank may be organized with a capital less than $25,000. There is apparently then still plenty of room for genuine service by the cooperative syndicate—even if there should also be the very properly hoped-for development of the Desjardins or Massachusetts credit-union. There is need for both the provident association and for the syndicate-bank.

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